Changing tack
Japan's contractors break with tradition
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Island divided
Malta plays out its EU overture
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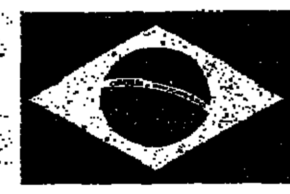
Ulysses ventures into the unknown
Page 17



São Paulo
Contrasts in wealth and poverty
Survey, Pages 13-15

FINANCIAL TIMES

Europe's Business Newspaper TUESDAY SEPTEMBER 13 1994 D8523A

Germany may end state monopoly in telecoms market

Germany may allow new telecommunications companies to open their own networks by the end of 1997, in spite of strong opposition from state-owned Deutsche Telekom and national operators in other European Union countries. In a surprise about-turn, the government said it would consider going it alone if the EU's Council of Ministers failed by the end of this year to fix a date for liberalising all EU networks. Page 22

Loyalists admit Dublin bombing: Hopes for an early end to the sectarian violence which has plagued Northern Ireland receded as loyalists claimed responsibility for planting a bomb in a Dublin railway station. Page 22; Employers see Ulster peace dividend, Page 12

Video-on-demand to fly higher: A Californian company plans to intensify competition for world in-flight entertainment by taking video-on-demand above 30,000 feet for the first time. Page 22

Bayer, German pharmaceuticals group, is to pay $1bn to buy back the right to use its own brand name in the North American market. Page 23; Observer, Page 21; Lex, Page 22

CS Holding, international financial services group built around Credit Suisse, has withdrawn its offer to acquire a minority stake in Creditanstalt-Bankverein, Austria's second-largest bank. Page 23; Flag still flies over Austrian bank, Page 24

Forte, UK hotel and restaurants group, is favoured to win its long-running battle with Accor of France to gain control of Meridien, luxury hotels chain owned by Air France. Page 23

Shepard quits Savoy: Giles Shepard resigned as managing director of the Savoy hotel group, saying he had been asked to go because he did not agree with management proposals. Page 23

Crisp prices hit Dalgety: Lower UK crisp prices and an over-abundance of continental pigs limited food and agribusiness group Dalgety to a 7 per cent rise in pre-tax profits. Page 23; Lex, Page 22; UB buys Dutch snacks business, Page 33

White House hit by aircraft: A single-engine light aircraft crashed into the south lawn of the White House, tumbling against the US presidential mansion and killing the pilot. Page 6

Nato begins exercises in Poland: Nato began its first exercises on ex-Warsaw Pact territory on a sports field near Poznan in Poland. Page 2

Arafat and Peres to discuss aid: Yassir Arafat, PLO chairman, and Shimon Peres, Israeli foreign minister, meet in Oslo today to try to resolve a row over foreign aid. Page 4

Separatists set to govern Quebec:

Voters in Quebec, Canada, went to the polls yesterday in provincial government elections. Daniel Johnson (above), Liberal party leader and current premier of the the province, warned that victory by the Parti Québécois, which supports independence from Canada, would put Quebec "on the incredible slippery slope of economic deterioration". Opinion polls indicated the separatists would win.

Delta Air Lines, third-largest US carrier, called on the US government to define a standard framework for bilateral aviation agreements. Page 8

British soldiers killed in Bosnia: Three British soldiers were killed and five injured when an armoured vehicle left the road near the beleaguered town of Gorazde. Hatreds divide Moslem and Serb, Page 3; No 10 sees abstention over Bosnia, Page 12; Editorial Comment, Page 21

Murayama admits by-election disaster: Tomiichi Murayama, Japan's prime minister, acknowledged that the ruling coalition had suffered a "crushing defeat" in Sunday's by-election. Page 5

Russia plans monopoly laws: Russia is preparing radical legislation to regulate monopoly industries, such as energy and utilities, which threaten to distort the fragile economy. Page 2

■ STOCK MARKET INDICES		
FT-SE 100:	3,128.8	(-10.5)
Yield	4.04	
FT-SE Eurotrack 100	1,368.09	(-1.94)
FT-SE-A All-Share	1,572.85	(-0.4%)
Nikkei	19,917.28	(+19.40)
New York: lunchtime		
Dow Jones Ind Ave	3,888.09	(-5.72)
S&P Composite	467.21	(-0.97)
■ US LUNCHTIME RATES		
Federal Funds:	4¾%	
3-mo Treas Bills: Yld	4.686%	
Long Bond	97½	
Yield	7.594%	
■ LONDON MONEY		
3-mo Interbank	5¾%	(5¾%)
Liffe long gilt future:	Dec 99½	(Dec 100½)
■ NORTH SEA OIL (Argus)		
Brent 15-day (Oct)	$16.26	(16.41)
■ GOLD		
New York Comex (Dec)	$394.9	(395.8)
London	$391.4	(391.85)

■ STERLING		
New York lunchtime:		
$	1.56845	
London:		
$	1.5626	(1.5509)
DM	2.4117	(2.3914)
FFr	8.2589	(8.1938)
SFr	2.0071	(1.9948)
Y	154.688	(153.95)
£ Index	79.1	(78.6)
■ DOLLAR		
New York lunchtime:		
DM	1.54375	
FFr	5.2785	
SFr	1.283	
Y	98.95	
London:		
DM	1.5435	(1.5419)
FFr	5.2855	(5.2832)
SFr	1.2845	(1.2862)
Y	98.985	(99.265)
$ Index	62.4	(62.5)
Tokyo close Y 98.98		

Austria	Sch32	Greece	Dr350	Malta	Lm0.60	Qatar	QR13.00
Bahrain	Din1.250	Hong Kong	HK$18	Morocco	MDh15	S.Arabia	SR11
Belgium	BFr65	Hungary	Ft185	Neth	Fl4.25	Singapore	S$4.30
Bulgaria	Lev20.00	Iceland	IKr215	Nigeria	Naira70	Slovak Rp	KSL50
Cyprus	C£1.10	India	Rs60	Norway	NKr17.00	S Africa	R12.00
Czech Rp	CZK50	Israel	Shk8.90	Oman	OR1.50	Spain	Pta225
Denmark	DKr16	Italy	L3000	Pakistan	Rs40	Sweden	SKr16
Egypt	E£5.00	Japan	Y500	Philippines	Pso50	Switz	SFr3.30
Estonia	Kr20	Jordan	JD1.50	Poland	Zl 28,000	Syria	S£50.00
Finland	FM14	Kuwait	Fils625	Portugal (mainland)	Esc225	Tunisia	Din1.500
France	FFr8.50	Lebanon	US$1.50			Turkey	L30000
Germany	DM3.50	Lux	LFr65			UAE	Dh12.00

No 32,470 Week No 37 LONDON · PARIS · FRANKFURT · NEW YORK · TOKYO

First rise for almost five years ■ Move intended to head off inflation

UK raises base rates to 5.75%

By Peter Norman, Gillian Tett and Philip Gawith in London

Mr Kenneth Clarke, the UK chancellor of the exchequer, moved to head off inflationary pressures by announcing a half-percentage-point rise in bank base rates to 5.75 per cent yesterday.

It was the first increase in officially inspired rates for nearly five years and more than reversed February's controversial quarter-point cut, which pegged rates at the unusually low level of 5.25 per cent for seven months.

Yesterday's decision, signalled by an increase in the Bank of England's minimum lending rate at the start of money market dealings, promises to be no less controversial.

Marking a decisive turn in the UK interest-rate cycle, Mr Clarke's announcement disappointed business organisations and came as the financial community had all but convinced itself that last Wednesday's monetary meeting between the chancellor and Mr Eddie George, governor of the Bank of England, had decided to leave rates unchanged. For the first time in living memory, a UK government has acted to tighten monetary conditions while retail price inflation is low.

A buoyant Mr Clarke said he decided to raise rates "to take no risks with inflation" at a time of strong economic growth.

His action was welcomed by financial markets. The pound jumped 1¼ pfennigs and more than a cent before trading steadily for the rest of the day. On the Liffe futures exchange, the December long gilt future rose to $100\frac{1}{32}$ in late trading, up $\frac{27}{32}$ points on the day.

Even the equity market responded positively after an initial dip. The FT-SE 100 index made up more than half an early 25-point loss to finish 10.5 points down at 3,128.8.

Kenneth Clarke in London yesterday after he raised rates "to take no risks with inflation" at a time of strong growth Picture: Trevor Humphries

Pledging to keep the recovery "healthy and lasting," the chancellor said UK output was growing at its fastest rate for six years, with exports at record levels and investment rising. Underlying inflation, at 2.2 per cent in July, was at a 27-year low.

"My overriding aim now is to make sure that this healthy growth can be sustained to deliver higher living standards and more jobs. So often in the past, accelerating inflation has prevented us from enjoying sustained growth," he said. "We would have jeopardised everything if we had sat about in the face of these very strong figures and decided we were not going to act."

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However, the chancellor admitted that the interest rate increase had been "finely judged". He and Mr George were "poised" to raise rates after their meeting last week but decided to take two days to reflect before the final decision, taken around Friday lunchtime.

The decisive factor was last month's disclosure that the economy had been growing much faster than thought in the first half of the year. That overcame any reservations based on more recent economic indicators hinting at a slowdown in consumer demand after the tax increases that took effect in April.

Earlier yesterday, the government's Central Statistical Office published official producer price figures-providing one of the first indications of pending inflationary pressures.

The price of goods leaving factories rose last month in most manufacturing sectors. Manufacturing output prices rose by 0.3 per cent in August compared with July.

The chancellor's prompt action against potential inflationary pressures was broadly welcomed by analysts who suggested that it injected a new element of credibility into the Government's economic policy.

Business and trade union leaders were less happy. Mr Richard Brown, deputy director-general of the British Chambers of Commerce, said there was "no justification" for the rise and warned it "may sabotage" much of the recovery. Mr Bill Morris, general secretary of the TGWU transport union, warned pay claims would reflect higher borrowing costs.

KKR buys US food group Borden for $2bn

By Tony Jackson in New York

Kohlberg Kravis Roberts (KKR), the Wall Street buyout firm best known for its $36bn purchase of RJR Nabisco in 1989, is returning to the takeover trail with the $2bn acquisition of the struggling US food group Borden.

The deal, in which Borden shareholders will take RJR stock in exchange for their shares, may also involve a degree of industrial merger between RJR and Borden.

Borden's loss of independence had been widely expected. Damaged by a series of ill-judged acquisitions in the late 1980s, the company tried unsuccessfully to sell itself off last year, with KKR and Hanson of the UK among the rumoured candidates.

In the absence of a buyer, the share price slid from almost $20 to last Friday's close of $11⅝. KKR's offer values the shares at $14.25.

Founded in 1857, Borden grew to be the largest dairy company in the US and the world's biggest maker of pasta. It reached crisis at the end of last year with the sacking of its chairman, Mr Anthony D'Amato, and the halving of its dividend.

The new management, headed by Mr Frank Tasco, chairman, then proposed a disposal programme, including the sale of the US's second-biggest snacks business. The plan was criticised by some analysts as inadequate and remains largely incomplete.

The KKR deal, which is typically complex in its structure, involves the disposal by KKR of half its remaining 35 per cent stake in RJR to pay for the acquisition of Borden. At the same time, RJR is to issue $500m of new shares to take a 20 per cent stake in Borden. RJR will also have the option to buy a further 10 per cent of Borden, and will have representation on the Borden board.

KKR said yesterday that the present Borden management team would remain in place.

Analysts commented that there

Continued on Page 22
Lex, Page 22

Swedish exporters warn of threat to investment

Attack on opposition economy plans in run-up to poll

By Hugh Carnegy in Stockholm

The chiefs of Sweden's four top exporting companies joined forces yesterday to warn that their planned domestic investments of up to SKr50bn ($6.6bn) a year were at risk if the ground rules for industry – including income tax levels – were changed for the worse after Sunday's general election.

The intervention by the executives, whose companies together account for a third of the country's exports and whose combined annual turnover last year exceeded SKr250bn, was considered highly unusual for Sweden.

In a joint newspaper article clearly aimed mainly at the opposition Social Democratic party, the heads of Volvo, Ericsson, the forestry group Stora and the local division of the Swiss-Swedish engineering giant ABB said their companies together planned annual investment at home or abroad of SKr40bn to SKr50bn over the next five years.

"With today's conditions, Sweden is an attractive choice. But uncertainty over labour market and economic policies, and the constancy with which they are applied, can hinder essential decision-making in a harmful way for Sweden," said their article in Dagens Nyheter, the country's biggest-selling broadsheet newspaper.

The four – Mr Sören Gyll, chief executive of Volvo; Mr Lars Ramqvist, chief executive of Ericsson; Mr Bert-Olof Svanholm, chief executive of Swedish ABB; and Mr Bo Berggren, chairman of Stora – said the recent surge in profitability and competitiveness in Swedish industry wrought by sound government policies must not be upset. They called on policymakers to tackle the budget deficit and stabilise the fast-growing public debt.

They also warned strongly that any increase in marginal income taxes would damage Swedish competitiveness.

The Social Democrats, who are expected in Sunday's poll to oust the right-centre coalition of Mr Carl Bildt, prime minister, have proposed cutting corporate tax as part of measures to stimulate investment. But they plan to raise marginal income taxes through a 5 per cent "emergency" tax and increase capital gains, wealth and dividend taxes.

The intervention had an immediate impact on the election campaign. Mr Bildt, desperate to close the gap on a weakening Social Democratic lead in the opinion polls, welcomed the article, saying it showed that Social Democratic policies threatened industry and employment.

But Social Democratic officials close to Mr Ingvar Carlsson, the party leader, dismissed it as crude election propaganda. Mr Carlsson said the party did not intend changing the basic income tax levels set in 1990.

Europe's top banks warned over cost of switch to Emu

By John Gapper, Banking Editor

Large European retail banks would have to spend up to Ecu225m ($274.50m) each to adapt technology and operations for a single European currency, according to unpublished research carried out for the Ecu Banking Association.

The association's 90 members include most large banks in Europe.

In a report published yesterday, it warned that banks in countries that do not take part in the European Monetary Union will face extra costs and competitive burdens.

However, its own research estimates that large banks in Emu countries may have to spend Ecu100m-Ecu150m each to adapt, and costs could be 50 per cent higher if countries keep domestic currencies in parallel for a transitional period.

A working paper says "such raw figures could of course provoke an unnecessarily alarmist reaction throughout the EU" if published. Association leaders said yesterday they wanted to emphasise Emu's opportunities.

Mr Walter Damm, chairman of the EBA committee studying Emu, said it had "wanted to avoid the impression that Emu is such a costly exercise that it is not worth the candle". Emu is due to start by 1999 under the Maastricht treaty.

Mr Damm said banks in countries such as the UK and Denmark, which have opt-out clauses from monetary union, could face disadvantages because they would lack an Ecu funding base and would have to operate in parallel currencies.

The published report warns banks to prepare for the costs of transition to Emu, but says these could be "marginal" if absorbed as part of continuous development of information technology.

Banks' loss of revenue from foreign currency exchange, and related financial derivatives, after monetary union could be balanced by a bigger market in Ecu exchange with currencies such as the US dollar, it says.

However, it says every European bank will have to redefine its size and geographical spread after Emu, which it says will have an impact similar to large-scale financial deregulation.

The Impact of Emu on Banks' Activities: Ecu Banking Association, 4, Rue de la Paix, F-75002, Paris. Report and working papers available on request.

Europe faces Ecu100m bank charge, Page 29

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NEWS: EUROPE

Light cast on secret manoeuvring of EU ministers

By Kevin Brown, Political Correspondent

A shaft of light fell across the secretive deliberations of the European Council yesterday with the release in London of partial details on more than 200 single market decisions taken in the five years to last December.

The records, which the EU has refused to publish, show that 91 of 233 single market decisions taken in secret by ministers were forced through against the wishes of one or more member states under the qualified majority voting system. The council – the most powerful EU institution, made up of EU heads of government – legislates in secret, and has resisted attempts to force disclosure of its deliberations under the union's open government rules.

Its reticence is being challenged in the European Court in an action backed by the European parliament following the formal rejection of attempts by newspapers to obtain voting records.

However, Mr Harry Barnes, a British Labour MP, has obtained details of single market decisions from January 1993 through a parliamentary question tabled in the British House of Commons.

Mr Richard Needham, UK trade minister, reveals in a letter to Mr Barnes that 142 single market provisions over the five-year period were adopted unanimously. Mr Needham does not give details of the alliances between member states in the 91 cases in which a vote was required. Nor does he say whether any proposals were withdrawn without being put to a vote.

However, he discloses that the UK was on the winning side in 66 of the contested votes, abstained 17 times, and was outvoted eight times.

The key British defeats were on regulations abolishing controls on passenger baggage on flights and sea crossings, on food quality control, and on transport issues such as the length of articulated lorries.

Other member states failed to get their way on a range of more important issues, including directives on company law, public procurement, television broadcasting, life assurance services, partnership law, telecommunications equipment, money laundering, gas transit and capital adequacy rules.

The council appears determined to prevent further breaches of its secrecy by arguing before the European Court that decision-making could be paralysed by a public right to know details of the negotiating stances of member states. In a submission to the court, the council has urged the judges to ignore declarations at EU summits in favour of greater transparency, arguing that such statements had no binding effect.

However, Mr Barnes plans to write to the European legislation committee of parliament in each member state urging them to use their powers to obtain national voting records. That would allow observers to compile a full list of the shifting alliances within the council, even if the court rules in favour of continued secrecy.

"This may be time consuming, but it will illustrate the secretive way in which much business is conducted," Mr Barnes said. "It would also fuel the arguments for democratic federalism involving open and accountable power-sharing between national parliaments and the European parliament."

Exports fuelling Czech growth

By Anthony Robinson

The Czech Republic has virtually completed the most ambitious mass privatisation programme in the former communist bloc and has embarked upon export-led economic growth. But painful restructuring of the newly privatised companies still lies ahead and the economy requires more foreign direct investment to penetrate new markets, Mr Vladimir Dlouhy, trade and industry minister said yesterday.

Addressing a Confederation of British Industry conference in London, Mr Dlouhy said the government now forecast a 2-3 per cent rise in the gross domestic product this year, fuelled by rapid growth in service industries and an upturn in industrial output.

Production from Czech factories plummeted 24 per cent with the collapse of Comecon markets and the start of market reforms in 1991. But industrial output was up 1.2 per cent in the first seven months of this year and in July was 4.2 higher than a year earlier. Growth was export-led, spurred by recovery in the German market which takes around 40 per cent of Czech exports and is the main source of foreign capital.

Mr Dlouhy identified the combination of the Czech Republic's high skill/low wage costs and undervalued currency as the economy's main assets. But he warned that these were essentially short term advantages which would be eroded over time as living standards rose and the government moved towards full convertibility of the Czech koruna.

Until now policy makers had concentrated on creating macro-economic stability rather than growth, and the results can be seen in a balanced budget, expected single digit inflation this year and low foreign debt of $9bn largely offset by the $6bn held in reserve by the central bank and commercial banking system, he said.

Structural reforms have been an integral part of macro-economic stabilisation, including banking system reform and mass privatisation. Mr Roman Ceska, chairman of the national property fund, said that the government expects to receive a total of CKs240bn ($8.6bn) from privatisation and has taken in CKs60bn to date.

"By the start of next year around 80 per cent of the economy will be privatised. Investment opportunities for foreign investors are now concentrated among the ranks of the recently privatised companies," he said.

Shares can be bought through the Prague stock exchange or the electronic RM small shareholder dealing system, but bigger parcels of shares can also be obtained.

Historic meeting is public relations reassurance for Russia and eastern Europe

Nato begins first exercises in Poland

By Christopher Bobinski in Poznan and Bernard Gray and Bruce Clark in London

Nato began its first exercises on ex-Warsaw Pact territory yesterday on a sports field near Poznan in Poland, as much a public relations reassurance for eastern Europe and Russia as serious military training.

Forces from as far apart as the US and Ukraine, Britain and Bulgaria took part in the historic meeting, part of the Nato "Partnership for Peace" initiative designed to involve eastern European countries in western security structures without granting them full membership of Nato.

Some 600 troops from six Nato and seven PFP countries are involved in the exercise, codenamed Co-operative Bridge 94.

The main thrust of the week's exercise is to develop peacekeeping skills among small groups rather than co-ordinate large movements of armour, the stuff of traditional Nato exercises.

While Nato's focus is increasingly on peacekeeping, this type of exercise is also less provocative to Russian sensibilities, still jangled by the thought of Nato forces training on old Warsaw Pact ground.

The Russians were conspicuous by their absence from the band of soldiers standing patiently at attention on the Biedrusko military area sports field as two Polish military bands dressed in uniforms dating back to the 1830s played the national anthems of the 13 participants.

General George Joulwan, Nato's supreme allied commander in Europe, called it "a truly historic occasion, as five years ago you were parted by the Iron Curtain and today you come to train together as new partners to build a free, democratic and peaceful Europe".

Partnership for Peace aims to increase the ability of east European and Nato forces to work alongside one another.

But it falls short of offering the mutual defence guarantees Nato members enjoy and many east European states want. Such tensions showed in official statements at the exercise.

"The PFP leads straight to an independent decision to full integration and membership in Nato," Mr Piotr Kolodziejczyk, a former Warsaw Pact officer and now Poland's defence minister, said yesterday.

This is a position which Nato has yet fully to accept. The Russians, despite joining PFP, remain afraid it will dilute their special power status in relations with the US.

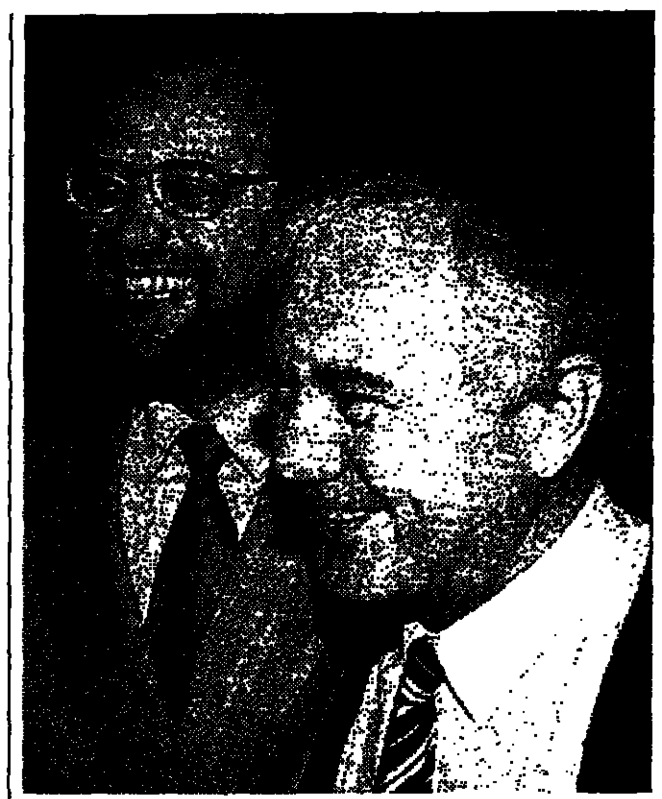
Equally, the Co-operative Bridge exercise is less than the Poles had wanted in initial talks about a scenario aimed at having Nato forces coming to aid a country attacked by a foreign power.

Instead, the exercises involve the more everyday tasks peacekeeping forces might have to perform. For the next four days, young men (and women in the US contingent) communicating in English, will practise searching vehicles at control points, crossing rivers while escorting refugees, and patrolling areas disputed by hostile forces.

Partnership for Peace has been criticised by leading Polish politicians as unsatisfactory, providing no real security guarantee. Poland's complaints that PFP does not go far enough have produced widely varying reactions in Germany, the main west European advocate of forming links with the east.

One school of thought, led by Mr Volker Rühe, Germany's defence minister, has argued publicly that Poland must be granted full Nato membership by the end of the decade. Other policy makers, mainly in the German foreign ministry, think it would be provocative to Moscow if such a deadline were set while Russia is still absorbing the effects of its withdrawal from east Europe.

Still, the splits over how far west Europe should guarantee eastern security seemed far from the minds of all the onlookers in Poznan.



WINNING SMILES: Rudolf Scharping, Social Democratic party chairman, left, with Manfred Stolpe, SPD prime minister of Brandenburg, who was returned with a big majority on Sunday, at party headquarters yesterday Associated Press

Poor showing by FDP worries Kohl

By Judy Dempsey in Berlin

Mr Helmut Kohl, the German chancellor, yesterday warned his governing Christian Democratic Union coalition not to become complacent in the run-up to the federal elections on October 16. "The election is not yet won and we have no votes to lend," he said.

Mr Kohl was speaking in Bonn after provisional election results showed another absolute and increased majority for the CDU in the eastern German state of Saxony. Its share of the vote rose from 53.8 per cent to 58.1 per cent while that of the opposition Social Democrats fell by nearly three percentage points to 16.6 per cent.

However, the CDU in Brandenburg had its share of the vote reduced by nearly 11 percentage points to 18.7 per cent, while the vote for the Social Democrats rose from 38.2 per cent to 54.1 per cent.

Mr Kohl's warning was prompted by the disastrous showing of the Free Democrats, the junior partner in the governing coalition, which failed to reach the minimum 5 per cent required to enter the state parliaments.

Mr Werner Hoyer, chairman of the FDP, said the results in Brandenburg and Saxony were "untypical. The FDP believes the low turnouts of under 60 per cent damaged the party but helped the Party of Democratic Socialism, the successor to the former east German communist party and now the third largest party in eastern Germany, holding between 16 and 18 per cent of the vote in Brandenburg and Saxony.

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Unions scoff at tax breaks for servants

By David Buchan in Paris

French prime minister Mr Edouard Balladur's latest job-creation measures drew a mixed reaction yesterday. The opposition and unions welcomed the proposed government subsidy to companies hiring the long-term unemployed, but scoffed at increased tax incentives to encourage the middle class to hire more servants.

In his Sunday night television interview, Mr Balladur also proposed, as "a collective commitment" for all his countrymen rather than an electoral promise, that the 3.3m jobless total should be reduced by 1m "over several years".

The Socialist opposition party yesterday criticised the prime minister's plan to quadruple the amount individuals can deduct from their own tax bill in social charges and pay for employees. "This will help maids in posh areas, but hardly make a big impact on slum unemployment," said the Socialist spokesman.

Mr Balladur's other job plan is to give subsidies to companies hiring those unemployed who have qualified for so-called RMI welfare payments for at least two years, and who are at the bottom of the heap of French society.

● France's Patronat employers' federation said yesterday it was launching its own inquiry into corporate ethics and relations with the law and politics, following a series of corruption allegations against the heads of leading companies.

The Patronat move follows Mr Balladur's announcement that he would appoint a three-man committee composed of a former Patronat president, a former union leader and a senior magistrate to report on issues raised by the scandals.

Mr François Perigot, the Patronat president, said his inquiry "would reassure everyone concerned by this dysfunctioning of the system".

Russia draws up legislation to regulate monopoly industries

By John Thornhill in Moscow

The Russian government is preparing radical legislation to regulate monopoly industries, such as energy and utilities, which threaten to distort the country's fragile economy. The law will aim to protect the consumer, counteract inflationary pressures, and help ease the inter-enterprise debts crisis.

The draft law, which will be introduced to parliament this autumn, envisages the creation of several powerful independent regulatory agencies to police the natural monopolies – defined as "commodity markets in which demand is effectively satisfied in the absence of any competition". The draft law covers oil and gas pipelines, the production and transmission of electricity, rail and air transport, and public utilities, such as telecommunications.

Officials worry that monopoly abuses in these "commanding heights" could damage the development of the broader economy. The fear is that such monopolies can stifle the emergence of effective competition and push through price rises fuelling inflation and worsening inter-enterprise debts.

The mass privatisation programme, which has transferred 85 per cent of the country's enterprises into private ownership, has concentrated enormous economic power in the hands of a few industrial managers but has not yet stimulated sufficient competition to check their ambitions.

The federal agencies would have considerable powers to devise and implement suitable regulatory frameworks for each targeted sector and would report to the government every year. They would be responsible for supervising all transactions affecting a natural monopoly's position in the marketplace and any share purchases in other enterprises. They would also scrutinise big capital investment projects and any sales or transfers of assets.

Under the proposed legislation, the regulators would have unrestricted access to information affecting the natural monopolies and would have considerable powers of enforcement. They could reverse any act deemed to be illegal and could impose fines or penalties on companies infringing the law.

The agencies will contain up to seven members who are specialists in the appropriate field. The head of a federal agency would be appointed for a three-year term by the president on the government's recommendation. They would take over responsibility for regulating the natural monopolies from various ministries.

The development of such a potentially stiff regulatory regime is bound to spark a heated debate. Some economists – and more self-interested industrial managers – have argued that monopoly powers are essential in the early stages of capitalist development to ensure companies can amass sufficient profits to reinvest in big infrastructure projects.

But one western economist welcomed the principle of stricter regulation and a more effective competition policy. "In countries which are trying to shed a tradition of collusive behaviour it is particularly important to take steps to change the ground rules and create a real framework for competition rather than collusion," the economist said. "But it will be critical to see how quickly and how well they can follow through with it, given a lot of interested parties will be opposed to arms-length regulation."

Maltese resist plans to bring in value added tax

By Godfrey Grima in Valletta

Malta's plan to introduce value added tax in 1995, part of its bid to join the European Union, has met opposition from the island's business community, trade unions and opposition Labour party.

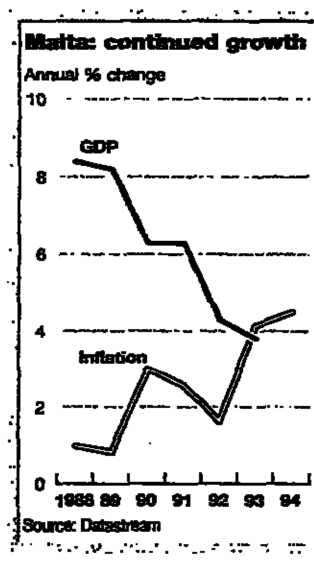
The introduction of VAT is part of the centre-right Nationalist government's programme of market liberalisation which includes cutting state subsidies, removing tariffs and ending state monopolies.

The prime minister, Mr Eddie Fenech Adami, has pledged this by 1996 with two objectives: first, to help develop the island as a financial centre to make up for the decline in traditional industries and manufacturing; and secondly, more controversially, to strengthen the country's bid for full membership of the EU.

The EU issued an encouraging *avis* last October which recognised Malta's desire to join the club but warned that reforms would be needed, including the restructuring of the island's tax system.

Malta: continued growth

Annual % change



Source: Datastream

Prime Minister Eddie Fenech Adami: aims to develop Malta as a financial centre and to strengthen its bid for full EU membership

Spearheading the campaign against the introduction of these reforms are the island's unions and the opposition Labour party, which opposes the EU bid. The unions fear VAT will mean high prices, and they accuse the government of rushing blindly to meet Brussels' demands for economic convergence.

State revenues have been heavily dependent on duties on imported goods, which are sometimes rated at more than 100 per cent. The rate of VAT will be 15 per cent on a wide range of goods and services, but excluding food and medical services.

The government insists there will be no cost-of-living rises. Inflation, fuelled by a devaluation two years ago, is about 5 per cent.

The General Workers Union, which has 43,000 members (or more than 30 per cent of the country's workforce) has already carried out industrial action in protest at the VAT plans. The General Retailers and Traders Union, which has 5,000 card-carrying members but boasts the support of 35,000, has also threatened disruptions unless the rate of tax is brought down.

While it is unlikely parliament's ruling on VAT will be overturned, more sensitive issues lurk round the corner. The reform of Maltese industry, which has enjoyed a high degree of protection, will be especially painful. Small companies involved in construction and furniture making, which account for 70 per cent of industrial employment, hide behind stringent tariff and non-tariff barriers, and the shipbuilding sector, which provides 5 per cent of employment, is heavily subsidised.

Other pending reforms include a new banking law which will abolish off-shore accounts to create the same conditions for locals and foreigners alike, and a privatisation programme. Both are likely to provoke opposition.

Along with looking for a role in Europe, the reforms are aimed at developing Malta as a financial and trading centre. It is hoped financial services could account for 10 to 15 per cent of GDP within five years if the reform programme is allowed to go ahead.

Ironically, however, the main threat to Malta's EU membership bid comes not from domestic opposition to the reforms but from the EU itself. EU members are resisting extending the current principle of the veto in voting to such small entities – Malta's GNP is 0.03 per cent that of the EU.

No progress is likely until 1996, when the EU will discuss the issue of enlargement.

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NEWS: EUROPE

EUROPEAN NEWS DIGEST

Italians retain Brussels hopes

Mr Silvio Berlusconi, Italy's prime minister, yesterday kept alive Italy's hopes of winning "an important economic portfolio" in the next European Commission. After meeting Mr Jacques Santer, president-elect of the Commission, Mr Berlusconi said they had agreed to postpone a formal decision on Italy's two Commission nominations until it was clear which portfolios would be available. That means waiting until after the Danish election on September 21, which should decide whether Mr Henning Christophersen of Denmark is going to stay on as commissioner responsible for macro-economic policy. If not, Italy will lobby hard to replace him with Prof Mario Monti, an economist and head of Milan's Bocconi University. The second Italian candidate for the Commission is likely to be Mr Enrico Vinci, secretary-general of the European parliament although Mr Berlusconi refused to confirm the names under consideration. One potential Italian commissioner, Mr Renato Ruggiero, a former trade minister, now seems certain to become the EU's candidate for head of the World Trade Organisation, the successor to the General Agreement on Tariffs and Trade, following an informal meeting of EU foreign ministers at the weekend. *Andrew Hill, Milan and Guy de Jonquières, London*

Finns agree EU farm terms

An important hurdle in Finland's progress to membership of the European Union was cleared at the weekend when the country won EU backing for an improved deal on the sensitive issue of farm subsidies. The agreement means 58 per cent of Finnish agricultural land will be eligible for a new special category of subsidy for the special conditions in the far north, with the border being set at the 62nd parallel. This is six percentage points more than the commission originally proposed but is less than the 64 per cent sought by Finland. Foreign minister Mr Heikki Haavisto said it was a deal the country "could live with", although Finland's central union of agricultural producers rejected the package as inadequate. Finnish support for the EU ahead of the referendum on October 16 has been falling in recent polls, partly because of concern about the impact of membership on farmers. The latest poll shows 38 per cent of Finns favour membership, with 31 per cent against and 31 per cent undecided. *Christopher Brown-Humes, Stockholm*

Germans hit lottery jackpot

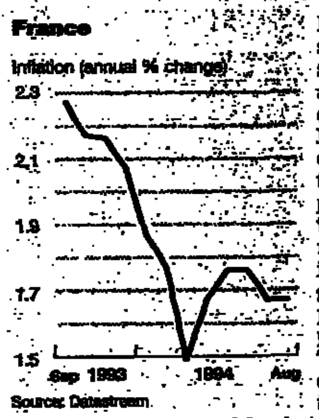
Lotto fever, which has gripped millions of Germans and their foreign neighbours and caused them to talk of nothing else in recent weeks, finally subsided yesterday with news that three groups of Lotto players would share a jackpot of DM42m (£17.3m) the biggest in the history of German lottery. After trying for 11 weeks to crack the burgeoning jackpot, the three so-called Lotto associations crossed the six correct numbers and had a lottery slip with the magical seventh number which has so far eluded millions of players. Germany's popular newspapers enjoy treating their readers to in-depth studies of the new millionaires, complete with colour photo spreads, but it was unclear if they would be able to do so today because their identities remained a mystery. About 3,000 people have become millionaires playing the weekly Lotto. Until yesterday the highest payout had been DM18.5m, shared by two housewives in 1992. *Michael Lindemann, Bonn*

Turks seek to extradite terrorist

Turkey is to ask France to extradite Dursun Karatas, leader of the left-wing terrorist organisation Dev-Sol. Karatas escaped from an Istanbul prison five years ago while serving a life sentence. Since their emergence in 1978 Dev-Sol have claimed responsibility for numerous killings; victims include a former Turkish prime minister, as well as countless police officials. Karatas was arrested on Friday crossing the French border from Italy with false papers. Ankara said extradition documentation would be sent to Paris "in the shortest period possible". Western countries commonly refuse extradition requests from countries which impose the death penalty. The French may require a guarantee that Karatas will not be sentenced to death before they grant extradition. *Reuter, Ankara*

ECONOMIC WATCH

French inflation stays low



French consumer prices were stable for the third month in succession in August, giving an annualised inflation rate of 1.7 per cent, according to Insee, the national statistics office. The figures underline the weakness of inflationary pressures despite a revival in the economy. The French economics ministry has revised its forecast of this year's growth in gross domestic product from 1.4 per cent to 2 per cent. Mr Jean-Claude Trichet, governor of the Bank of France, said last week that the current growth rate does not pose inflationary risks, but he said strict budget deficit reduction policies must be adhered to. The inflation statistics revealed a decline of 0.6 per cent in the index for food prices and a rise of 0.2 per cent in private sector manufactured goods. *John Ridding, Paris*

● Slovakia's GDP grew by 5.3 per cent in the second quarter of 1994, the largest quarterly increase since the end of communism five years ago, the Slovak Statistics Bureau said yesterday. The increase compares to a fall of 5.1 per cent in the same period last year and growth of 3.6 per cent in the first quarter this year. Analysts said the pace of growth in the second half is expected to slow. *Vincent Boland, Prague*

Unbridgeable hatreds divide Moslem and Serb

Beside the ancient Visegrad bridge in Serb-held Bosnia, **Laura Silber** finds old antagonisms undimmed

Amid the destruction of Serb-held Bosnia, the bridge at Visegrad, built more than 400 years ago, bears witness to the region's Ottoman past. For Bosnian Serbs, the bridge's 11 arches, spanning the River Drina, represent the linking of Serb lands. For Moslems, they symbolise Bosnia.

Under an international peace plan, overwhelmingly rejected by the Bosnian Serbs, the bridge and most of Visegrad, in the south-east near the Serbian frontier, are designated to the Moslems.

With about 135 international monitors due to be deployed this week on the frontiers of Serb-held Bosnia and Serbia proper to supervise Belgrade's embargo, the people of Visegrad are likely to feel even more isolated.

It was in the Drina valley that Serb forces undertook some of their most brutal operations at the start of the 28-month war. Here Moslems were expelled and murdered before they even realised that a real war had begun.

These days a heavy silence hangs over Visegrad. On a road slicing through the wilds of Bosnia, the densely wooded landscape is tainted by a chain of deserted villages and burned-out houses.

In one hamlet on the road to Visegrad, a smashed minaret on a heap of rubble testifies to the area's Moslem heritage.

The Serbs of Visegrad cherish the bridge despite the fact that it was built by Mehmed Pasha Sokolovic, the Ottoman Vezir of Bosnia. After all, explains Mrs Snezana Kojic, of the town council, Mehmed Pasha was originally an Orthodox Serb who as a child was kidnapped by the Turks from his home near the Drina.

She is retelling the Bridge on the River Drina, the novel in which Nobel prize winner Ivo Andric wove the story of the bridge into four centuries of Bosnian history.

Andric wrote that the bridge "formed an indispensable link on the road between Bosnia and Serbia and further...."

There is still Turkish script etched in stone in the middle of the 180-metre structure. Thirteen verses remind travellers that Mehmed Pasha built the bridge in 1571.

Asked why this Ottoman treasure escaped destruction, Mrs Kojic answered, "It connects Serbs on both banks of the Drina."

"In any case," she added, "Mehmed Pasha went back to his Serbian roots when he came here to build the bridge."

The legend describes how Mehmed Pasha struggled against evil witches who undid the work each night until the Vezir immured two Serb children in the bridge.

The bridge at Visegrad. Built by the Ottomans, Serbs have now driven all Moslems from the area

For centuries, according to Andric, Moslems and Serbs lived in harmony in Visegrad – but their world would quickly come apart whenever neighbouring countries and the Great Powers upset the balance in Bosnia.

Now, having erased almost all traces of Turkish rule, local Serbs say they will never give up Visegrad.

"We will not accept this plan," said Mr Drago Gavrilovic, town boss of the ruling party. Bosnian Serb leaders rejected the proposed maps, which calls on them to surrender one-third of the 70 per cent of Bosnia they control.

"There are no Moslems left," he says of Visegrad, where they once made up nearly two-thirds of the town's 21,000 inhabitants. Despite Mr Gavrilovic's claims that Serb refugees have brought the population to its pre-war level, wrecked houses once owned by Moslems remain empty.

On the eve of the war, one Saban Muratovic, a Moslem, took a sledgehammer to the statue of Andric, which overlooked the bridge. This act, say local Serbs, started the war.

Soon after war broke out, the Moslems of Visegrad either fled or were killed. Unconfirmed reports say a paramilitary leader, Vladimir Lukic, led the slaughter – shooting Moslems throughout the night and dropping their corpses off the bridge.

Lukic frequents a local cafe on Visegrad's main street. Once named after a Moslem partisan hero it now bears the name of the Russian Cossack volunteer brigades who came to Bosnia to fight with the Serbs.

The cafe is the haunt of the new Vezirs of Visegrad – young, battle-scarred thugs whose dull eyes betray no fear.

Mrs Kojic scoffs at the notion of an international war crimes tribunal. "Are we Serbs capable of any crimes?" she asks. In Visegrad, Lukic is a hero.

Andric wrote about the Moslems organising gangs to hunt down Serbs after the young revolutionary Gavrilo Princip assassinated Archduke Ferdinand in Sarajevo in 1914 – one of the events which triggered the first world war.

The bridge then separated Moslems and Serbs. "The bridge remained as if under sentence of death," Andric wrote. "But none the less still whole and untouched between the two warring sides."

By the end of the novel, however, as if in a dream, the old Moslem *hodja* sees "the ruined bridge, horribly, cruelly cut in half".

In Visegrad today the front line and the Moslems are far away. "We are now deep into Serb territory," says Mr Gavrilovic.

Israeli-PLO aid row moves to Oslo

By Julian Ozanne in Jerusalem

Mr Yassir Arafat, PLO chairman and Mr Shimon Peres, Israeli foreign minister, meet in Oslo today to try to resolve a row over foreign aid which derailed last week's international donors conference and delayed the release of money for the cash-strapped Palestinian self-rule authority.

The row focuses on Palestinian demands for donors to fund projects in Israeli-occupied Arab East Jerusalem and is yet another example of the tortuous problems both sides have in implementing their fragile peace agreement signed exactly a year ago.

Last week's aid meeting in Paris broke down after Israel flatly refused to allow East Jerusalem projects to be considered as part of the 1995 aid-funded Palestinian budget. Under the self-rule agreement, both sides postponed discussions on the future of Jerusalem until late 1995. However, the plight of Arab East Jerusalem remains the most emotive issue to Palestinians and a constant rallying point of Mr Arafat's critics who say he has conceded too much in peace talks with Israel.

For the moment, the Palestinians have little alternative but to give in to Israeli opposition.

The authority urgently needs donors to speed up the release of hundreds of millions of dollars of promised aid to help with economic development and meet high economic expectations.

The PLO has presented a revised budget deficit of $25m (£16.1m) a month.

Israel has said it is reluctant to proceed with the transfer authority over health, welfare, taxation and tourism to the Palestinians in the still occupied West Bank until there are firm commitments by donors to meet the financial gap. The PLO is also desperate for an aid agreement to establish a "Cop Fund" worth $7m a month to pay the salaries and running costs of the 9,000-strong Palestinian security forces, soon to be expanded as the PLO spreads out into the West Bank before elections.

For their part, international donors continue to insist the PLO demonstrates better financial management, institution building and commitment to tax collection.

Mr Arafat and Mr Avraham Shochat, Israeli finance minister, met in Gaza yesterday to ease the row that Mr Shochat called "a small crisis".

However, many senior Palestinian officials have become increasingly pessimistic about the slow progress and the almost daily struggle in painstaking negotiations with Israel.

Many are resentful about Israel's *de facto* veto over the pace of implementation.

Three Palestinians being tried by the first Palestinian court constituted in Gaza. They are accused of killing a member of Hamas Reuter

Global agenda accepted in Cairo

By Mark Nicholson in Cairo

More than 150 governments last night accepted a sweeping UN document setting a global agenda for population stabilisation policies into the next century, enshrining for the first time a concept of "reproductive rights".

What some delegates described as the "toughest day yet" of negotiating at the International Conference on Population and Development cleared up almost all remaining contentious issues regarding "reproductive and sexual health" and the reunification of migrant workers' families, ready to submit a final text for approval at a plenary meeting today.

"There was a semblance of divergence," said Mr Nicolas Biegman, the Dutch diplomat and vice-chairman of the committee discussing the text. "But on a great proportion of issues of population and development, including family planning, the nations of the world think largely in the same way."

The final document is set for approval by participating states today, though some, including the Vatican, are expected to voice reservations on at least some parts of the text regarding abortion and reproductive health. A formal Vatican reservation is expected today.

Yesterday's haggling focused mainly on definitions of "reproductive and sexual health" which had raised opposition from Moslem and Catholic countries. Delegates said many misunderstandings surrounding these issues had been cleared up, particularly with Moslem states.

Western medical delegates praised the document for defining for the first time in "international language" a broad concept of reproductive and maternal health.

Algerian debt talks take on a surreal aspect

Fears over the country's political stability cloud an encouraging report from the IMF, reports **Francis Ghilès**

International bankers meeting in Paris today to discuss the restructuring of Algeria's commercial bank debt should be comforted by the results of the first review of the economy conducted by the IMF since it signed an agreement with north Africa's largest country six month ago and extended a $1bn (£600m) stand-by credit to back up significant economic reforms.

In the six months to the end of June, money supply grew more slowly than had been agreed with the IMF. The value of the dinar, which was devalued by 40 per cent last April, has remained virtually unchanged since then.

Officials claim that inflation, running at more than 40 per cent earlier this year, will decline to below 30 per cent by the year end. And the budget deficit has been cut from 9.2 per cent of gross domestic product in 1993 to 3.1 per cent.

Less positively, many officials say that 2 per cent GDP growth is the most that can be hoped for, as opposed to earlier IMF forecasts of 3.1 per cent.

This is explained by the severe drought, which will force Algeria to import 95 per cent of its cereals consumption against last year's 75 per cent, the sharp drop in purchasing power caused by the devaluation, a reluctance to invest, and the sheer difficulty of running factories at a time of serious civil strife. The IMF agreement, and the rescheduling of part of Algeria's debt to foreign governments which followed last May's Paris Club meeting, have loosened the stranglehold of debt. The debt service ratio, as a percentage of exports of goods and services, will fall this year from 86.4 per cent to 52.9 per cent. Imports of raw materials and capital goods are forecast to increase by $1.1bn to $9.15bn, just below the $9.4bn agreed with the IMF. Hard currency reserves minus gold have increased by $600m to $2.1bn since the end of 1993.

An estimated 100,000 new jobs are being created this year. However, with 240,000 young Algerians entering the labour market annually, the country is still burdened with an unemployment rate of 27 per cent. Algerian officials accept that a faster rate of economic growth is impossible until restructuring of the myriad loss-making state enterprises is fully under way and a measure of civil peace is established.

The first task the bankers must address today is the formation of a steering committee and appointment of a chairman. Two-thirds of Algeria's $4.7bn commercial debt is owed to Japanese banks and leasing companies. They all agree, however, that Algeria is primarily within the French sphere of influence, and do not relish taking a high profile while the political future is so uncertain.

Of the three leading French banks, Crédit Lyonnais, which chaired the steering committee three years ago, feels it has shouldered its fair share of responsibility. Société Générale, which has the largest exposure of the three banks to Algeria, has little experience of this kind of operation, while Banque Nationale de Paris (BNP) can argue it has virtually no Algerian paper on its books. The betting in Paris is that the French Finance Ministry will "instruct" one of the three banks to step forward.

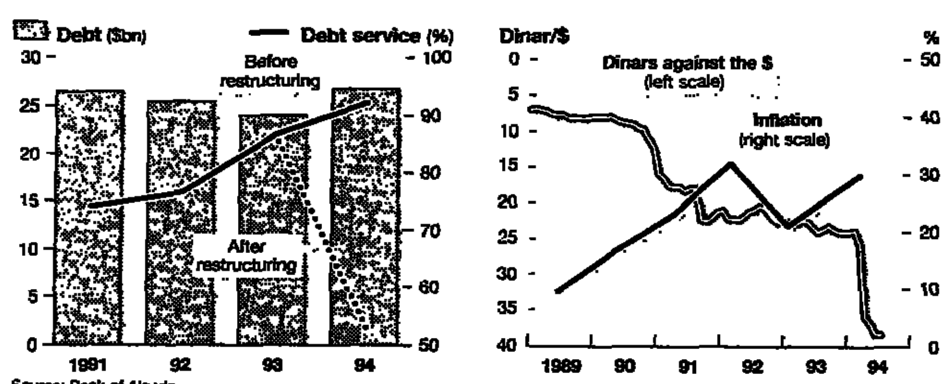
Bankers do not as yet know how much of Algeria's remaining $3.1bn commercial debt (the $1.6bn refinanced in 1991 will not be affected) they will be asked to restructure. If principal repayments for 1994 alone are considered, the amount would be $700m, but if repayments for 1994 and 1995 are included, the sum rises to $1.4bn. Nor do they know whether a "London Club" rescheduling or some other formula will be agreed.

The Japanese banks made provisions for their Algerian loans in July.

Whatever the outcome of today's meeting and the imprimatur the IMF is likely to give Algeria, the discussions on the restructuring of Algeria's foreign debt remain, in the words of one senior banker, "somewhat surrealistic".

All participants at the meeting are well aware that without a political solution to Algeria's 21-month-old crisis, "figures, however good, are figures and no more".

Algerian debt: changing circumstances



Source: Bank of Algeria

Strike called in Uttar Pradesh

By Stefan Wagstyl in New Delhi

The north Indian state of Uttar Pradesh was braced yesterday for a general strike called by the state government amid growing inter-caste violence and political turmoil.

Mr Mulayam Singh Yadav, the state's chief minister, rejected a call from Premier P V Narasimha Rao to cancel the strike for fear it might provoke violent demonstrations. Mr Yadav, who came to power last autumn at the head of a lower-caste alliance of parties, is the first politician to rule Uttar Pradesh in the name of the lower castes.

His avowed policy is to promote their interests at the expense of the upper castes. His intentions are important because Uttar Pradesh, India's most populous state, is regarded as the cradle of Indian politics. Success for caste-based politics there could threaten other states' stability.

The Uttar Pradesh crisis has come from Mr Yadav's efforts to implement job reservation policy. Under Indian law, up to 50 per cent of public-sector jobs and places at many colleges must be reserved for lower castes. But the law has rarely been fully implemented.

Mr Yadav's attempt to hasten this has caused widespread unrest in northern Uttar Pradesh, where 74 per cent of the population is upper caste. In the last month, about 10 people, including one senior police officer, have been killed in violent demonstrations. Yesterday, crowds burnt vehicles in the hill town of Dehra Dun.

Mr Yadav's government last night was verging on collapse. The ruling alliance of the Bahujan Samaj Party and the Samajwadi Party commands only 198 of 425 state assembly seats, and has been ruling with the support of 32 Congress(I) members who joined Mr Yadav to keep the Hindu Bharatiya Janata Party out of power. But local Congress leaders have asked Mr Rao's permission to quit the coalition.

Indonesian whispers turn to shouts

Manuela Saragosa reports on the Jakarta opposition's efforts to unravel the latest alleged banking scandal

Members of Indonesian opposition parties are stepping up efforts to bring details of an alleged banking scandal into the open.

The attorney-general's office in Jakarta is investigating the bad debts of PT Kanindo Prima Perkasa textile company, owned and operated by Mr Robby Tjahjadi, a controversial businessman jailed in the 1970s for smuggling.

Mr Tjahjadi is alleged to have defaulted on about Rp 500bn of debts (£149m) at two state-owned banks, Bank Bumi Daya and Bank Pembangunan Indonesia, more commonly referred to as Bapindo. His company, Kanindo, is said to be suffering from serious liquidity problems.

The Bapindo bank is also at the centre of another scandal involving Mr Eddy Tansil, owner of the Golden Key Group, recently sentenced to 17 years' imprisonment for defrauding the bank of more than $450m.

The case exposed the extent to which lenders collude illegally with borrowers to secure loans, bringing out in the open the level of bad debts at state banks.

The Tansil case "is an appalling reality" that suggest the Indonesian banking industry is an instrument for activities of legalised crime," said Mr Laksamana Sukardi, an economic consultant and prominent member of the opposition party PDI, said.

No one has been arrested or brought to trial yet in the Kanindo case, but many Indonesians are demanding that someone be held responsible. Mr Tjahjadi is thought to be in Singapore.

Adding a twist to the Kanindo case are allegations that the textile company managed to secure additional loans from Bapindo as recently as April by issuing fake export documents to support its loan application. If this is true, the company would have secured a loan from Bapindo while a number of Bapindo executives were standing trial for their involvement in the Golden Key loan case which shook the banking establishment in Indonesia.

Mr Sudradjad Djiwandono, governor of the central bank, says: 'We've asked banks to identify the clients creating problems for them and we're dealing with them one by one'

In an effort to resolve Kanindo's bad debts problems, Mr M Muhammad, Indonesia's finance minister, has appointed the Federation of Indonesian Batik Co-operatives to take over the management of the company. The government is also courting the textile group Texmaco to take over Kanindo's assets.

Details of the Kanindo case were made public late last year but the government did not take any action at the time.

Mr Tjahjadi was summoned to appear in a parliamentary hearing but members who questioned him about the state of his loans could not back up their allegations because of banking secrecy laws. Since then, opposition parties have increased pressure on the government to take action against Mr Tjahjadi.

The Kanindo affair is raising questions about the government's efforts to clean up the banking sector.

The scandal involving the Golden Key group prompted Mr Muhammad to expose the extent of bad loans at state banks, an effort praised by private commercial banks.

Mr Muhammad announced earlier this year that 21.2 per cent, or about $7bn, of the outstanding loans extended by the state banks were classified as bad or doubtful, compared with 17.4 per cent at the end of 1992 and 16 per cent in 1990. Economists and bankers in Jakarta say the figure could be much higher.

Since then, Indonesia's central bank, Bank Indonesia, has been conducting investigations into state banks with problem loans, singling out companies that have caused the problems. Mr Sudradjad Djiwandono, governor of the central bank, said a supervisory team had been formed with the Ministry of Finance.

"We've asked banks to identify the clients creating problems for them and we're dealing with them one by one," the governor said.

Now Indonesians are demanding to know how the central bank could have overlooked Kanindo's bad debts.

"The Kanindo case is causing us major apprehension." said an editorial in the English-language daily, the Jakarta Post.

Murayama acknowledges 'crushing defeat'

By Gerard Baker in Tokyo

AICHI BY-ELECTION SEPTEMBER 11

	SEP 94	JUL 92
LDP	544,637 (25.1%)	590,618 (26.1)
SDP	(combined)	357,592 (15.8)
Opposition parties	931,936 (43.0)	994,454 (44.0)
Others	691,332 (31.9)	316,242 (14.0)
Turnout	42.9%	47.0%

Mr Tomiichi Murayama, Japan's prime minister, acknowledged yesterday that the ruling coalition led by his Social Democratic party (SDP) and the Liberal Democratic party (LDP) had suffered a "crushing defeat" in Sunday's Upper House by-election in Aichi Prefecture.

The candidate backed by the government lost heavily to a representative of the opposition parties in the first electoral test since the administration was formed in June.

Mr Murayama attributed the setback to a late start to the coalition's campaign, and an inability to differentiate its policies from those of its opponents. "It is regrettable," he declared. "I accept the result humbly and will try again."

Opposition leaders hailed their victory as a mandate to create a new, single political party to fight the next election.

"We will put all our energy into forming a new party," said Mr Tsutomu Hata, the former prime minister and leading light behind the unity moves. "The people are investing high hopes that we will persistently pursue reform and conduct responsible politics."

The opposition's candidate, Mr Yuzuru Tsuzuki, a former labour ministry official, won 931,936 votes, easily defeating the governing parties' nominee, Mr Jiro Mizuno, a former United Nations diplomat, who polled 544,637 votes.

But a more detailed analysis of the result suggests that the opposition's early euphoria may be misplaced. In fact there was little enthusiasm for either of the two main groupings.

Though the government's performance was lamentable, the main beneficiaries were not the opposition but independent candidates. At the last election in 1992, the constituency was evenly divided, returning two members from the present opposition and one from the governing LDP.

In that election the LDP and SDP (running separately) secured 42 per cent of the total vote between them, against 44 per cent for the combined vote of today's opposition parties.

Coalition support slumped to just 25.1 per cent, but while the opposition was comfortably ahead, its proportion of the vote also fell slightly, to 43 per cent.

The big winners were the various independent candidates, one of whom, Mrs Makiko Suehiro, a local television personality, came close to beating Mr Mizuno into third place. Altogether, five other candidates took a remarkable 31.9 per cent of the vote, up from 14 per cent in 1992. This strong performance by independents and parties not aligned with the opposition coalition, combined with the low turnout (at 43 per cent the fourth lowest for the constituency since the second world war) points to a significant degree of voter disillusionment with the main parties.


Murayama: 'It is regrettable. I accept the result humbly'

During the campaign, opinion polls suggested that electors were dissatisfied with the chaotic nature of Japanese politics which, in little over a year, has produced no fewer than four changes of government.

The same polls detected a degree of cynicism from voters about the seriousness of any party's commitment to political reform, a genuinely popular concept.

That cynicism was exacerbated by the fact that both government and opposition asserted with equal vigour throughout the campaign their commitment to reform.

Nevertheless, the political runes are undoubtedly more alarming for the SDP and the LDP. Sunday's defeat is likely to accentuate the tensions within the uneasy alliance.

But it also makes a general election an even more distant prospect.

The two main coalition partners will probably choose to cling to each other more tightly, postponing for as long as possible their appointment with the nation's voters.

Bolger forced into first coalition

By Terry Hall in Wellington

New Zealand has its first coalition government for 50 years following the decision of junior minister, Mr Ross Meurant, to form his own party which will continue to support the administration of prime minister Jim Bolger.

Mr Bolger said in a radio interview yesterday that Mr Meurant's move was expected and he believed another party backbencher, Michael Laws, would also announce he was forming a new party soon.

Mr Meurant announced the formation of the Right of Centre Party on Sunday night

He said it aimed to appeal to disgruntled former members of the National party who wanted a more moderate approach, and to provide a potential coalition partner for the National party after the next election.

Right of Centre would pitch itself at 15-20 per cent of voters in each constituency, and hoped to gain at least 10 seats.

Mr Bolger has said for some time that he expected defections from both main political parties as New Zealand moved towards adopting a voting system giving parties seats in parliament if they achieve a minimum threshold of the national vote, as in Germany. If the National party retains its narrow majority, the next election will be held under this system, favouring smaller parties, rather than the British Westminster system.

Mr Bolger said he had entered into an agreement with Mr Meurant who would support the government on all main issues to ensure it stayed in power for its full three-year term. Mr Meurant will retain his post as agriculture and forestry under-secretary.

Mr Meurant is a controversial MP who sprang to national prominence in the early 1980s when, as a senior policeman, he led the so-called Red Squads that battled street demonstrators who were fighting against South African rugby tours.

Congress cold on reform of healthcare

By George Graham in Washington

The US Congress returned to Washington yesterday, after two weeks in recess, with less appetite than ever for any kind of healthcare legislation.

In spite of last-minute efforts to achieve a minimal compromise that could squeeze through both chambers of Congress in the next month, there is little wind left in the sails of the reform which President Bill Clinton launched a year ago with his detailed plan to guarantee health insurance to everyone in the US.

Some centrist Democrats continued to work with Senator John Chafee and a band of moderate Republicans on a compromise bill, based on reforms to the insurance market and subsidies to expand health insurance coverage.

This mainstream group has also begun discussions with backers of the more ambitious reform plan, proposed by Senator George Mitchell, Democratic majority leader in the Senate, to see whether the two can come together.

However, it is by no means clear that such a compromise measure can spur enough enthusiasm to pass even the Senate. Its prospects in the House of Representatives seem close to zero.

Only four weeks now remain before Congress is due to rise for a month of campaigning in the election on November 8 faced by the whole House and a third of the Senate.

The coalition that would prefer to do nothing at all this year now includes the bulk of the Republican members – some of whom are wary of tinkering with the healthcare industry, while others are simply determined to deny Mr Clinton and the Democrats any chance of claiming a victory – and those left-leaning Democrats who favour a national healthcare system.

This group, led by Congressman Jim McDermott, appears firmly opposed to any diluted reform. So does Mr Clinton. He has appeared to back away from the theatrical threat, made in his State of the Union speech early this year to veto any bill that did not guarantee universal coverage, but the threat has not been lifted.

What is more, it might have been possible to gloss over the question of whether reforms that covered 96 or 97 per cent of the population constituted universal coverage, but no measure now available would come close to that.

In pure political terms, some Democrats would prefer to give up the search for healthcare reform as soon as possible, rather than face an ignominious defeat a few weeks before the congressional elections.

Most members appear convinced that there is little to be gained with their constituents by pressing ahead with reform at all costs.

Wreckage of the single-engined aeroplane which crashed on the south lawn of the White House early yesterday Picture: Reuter

A light aircraft, with its engine switched off, penetrated high-security air space and crashed on a White House lawn early yesterday. It slid against the mansion, killing the pilot. President Bill Clinton, his family and staff were unharmed, Reuter reports from Washington.

Security agencies were trying to determine whether they were dealing with a bizarre accident or a kamikaze-style attack. The pilot was tentatively identified as a man from the neighbouring state of Maryland. Officials were pursuing reports he had stolen the aircraft from a Maryland air club and were checking reports that he had a history of mental illness.

The president, Mrs Hillary Clinton and their daughter Chelsea were asleep a few hundred yards away across Pennsylvania Avenue in Blair House, a guest residence.

The aeroplane swooped from the direction of the Washington Monument, passed over a high, steel-rail fence and ploughed into the White House back lawn at about 2am local time.

There were no reports that White House security forces had fired at the aircraft.

The US secret service and the US army are believed to have installed anti-aircraft weapons on the mansion and a next-door building after a similar airborne intrusion in 1974.

Strike hits car output in Brazil

By Angus Foster in Rio de Janeiro

The main unions in Brazil's vehicle industry went on strike yesterday for an immediate pay rise, in the first serious threat to a wage freeze introduced under the government's anti-inflation plan.

Production at all large factories, based in São Paulo state, was much affected. Union officials said nearly half their 150,000 members had stopped work yesterday morning. Autolatina, Brazil's biggest carmaker and a joint venture of Volkswagen and Ford, said production had "almost totally stopped".

Anfavea, the car-makers' association, said that, if the strike lasted more than a few days, it would seriously disrupt sales because demand is high and stocks are "non-existent".

Unions are calling for salaries to be increased monthly so as to make up for losses in purchasing power through inflation. Such monthly increases were common before the introduction, on July 1, of Brazil's new currency, the Real, under the anti-inflation plan. The government has now ruled that wage increases can only be granted once a year.

Union leaders argue that official inflation indices show an 11.9 per cent increase since the new currency was launched. They also argue that a 1992 agreement by labour, car-makers and the government guaranteed monthly increases.

Mr Ciro Gomes, the new finance minister, opposed a compromise by unions and carmakers which would have allowed a one-off pay increase. He said any rise had to wait until the unions' annual pay round in April. The government is concerned that, if carmakers agree to union claims, other sectors will push for regular pay adjustments. Any rise could also be inflationary since it would mean higher car prices and increased spending by workers.

The government criticised the strike as "political" and claimed it was designed to undermined the Real and the government candidate in the presidential election next month, Mr Fernando Henrique Cardoso, the finance minister who hatched the plan.

The strike is led by metalworkers unions linked to the left-wing Workers' Party of Mr Luiz Inácio Lula da Silva, Mr Cardoso's main opponent.

Mr Vincente Paulo da Silva, president of the CUT union assembly, denied the strike was politically linked.

See São Paulo survey

Cuba refugees flee via open south

By Canute James in Kingston and Pascal Fletcher in Havana

More Cubans appear to be leaving the unsupervised south coast of their country for neighbouring islands in the Caribbean, as Cuban police continue to patrol sections of Cuba's north coast to deter boat people from heading for the US.

Government officials in the Cayman Islands and Jamaica said yesterday they feared the Cuban move to restrict rafters fleeing the north coast, following the agreement last week by the Cuban and US government to curb illegal migration, would lead to a southward rush of refugees.

More than 200 refugees arrived in the Cayman Islands over the weekend, despite an announcement last week by the government of the UK dependency that all "economic migrants" would be repatriated. This brings to 620 the number of Cubans refugees on the Caymans, whose administration said it had no more money to take care of Cubans.

Cuba's government said at the weekend that, until midday today, it would try to persuade would-be refugees not to depart in home-made rafts and boats. "We really don't want to use force," an official statement said. But it added that, after the deadline, the authorities would use force if necessary to stop rafters from leaving, especially if they resisted violently.

After the accord with the US, a flotilla of rafts carrying refugees rushed to leave beaches near Havana before the authorities moved to stop them.

"The agreement means nothing for us," said Mr Severo Estupiñán, 59, as he prepared to depart. "People will keep on leaving." More than 32,000 Cubans have fled the recession-hit island this year, most during the last month.

Jamaican immigration officers yesterday began interviewing 25 Cubans who had walked off a beach and into one of the island's more exclusive north-coast resort hotels at the weekend. They had left Cuba from the south coast.

"Most of the Cubans coming here, and I presume those going to the Cayman Islands, want to go eventually to the US," said a Jamaican government spokesman.

"But the US is not taking them. If they are not repatriated, their first port of call – the Caymans and Jamaica – will be their home for some time."

He said, however, that the Jamaican government did not plan to repatriate any Cuban refugees.

Havana minister in Madrid impasse

Mr Roberto Robaina, Cuba's foreign minister, is waging a week-long diplomatic offensive in Madrid to rescue the credibility of his government, but so far has met only reservations from Spanish officials and hostility from Cuban opposition groups, writes Tom Burns in Madrid.

Spain is trying to broker a transition towards political pluralism and a market economy in Cuba. Madrid is urging on Mr Robaina's "profound and rapid" reforms. The talks follow a Cuban-US meeting in New York last week which yielded an agreement to halt the flow of Cuban illegal migrants to the US.

Madrid, which has played a discreet economic advisory role to the Cuban government over the past year, is understood to be particularly disappointed that a package of measures to deregulate the Caribbean state's economy, drawn up by Mr Carlos Solchaga, a Spanish former finance minister, has been largely ignored in Havana.

Mr Javier Solana, Spain's foreign minister, warned after extended talks with Mr Robaina that "a possible solution today may no longer be possible tomorrow".

A spokeswoman for the Cuban minister, who will stay in Spain until tomorrow, acknowledged yesterday that differences had emerged in discussions with Madrid.

Cuban opposition politicians and human rights groups abroad claim that individual, private meetings of Mr Robaina and selected Cubans from the US, organised by the Spanish government in Madrid, are merely cosmetic.

"There is no undertaking by [Cuban President] Fidel [Castro] to meet the internal opposition in Cuba," said Mr Antonio Guedes of the Cuban Democratic Platform, an opposition grouping of liberal, Christian democratic and social democratic parties.

UK 'in final stage' of trade talks

Britain is in the final stages of negotiating an investment promotion and protection agreement with Cuba in an effort to raise its trade and investment profile in the Caribbean's largest island, writes Pascal Fletcher in Havana.

"I hope we will be able to reach an agreement ... we are in the final stages of discussions," Mr Ian Taylor, trade and technology minister, said late on Sunday at the start of a three-day visit to Cuba by a delegation of businessmen and trade officials. The last official visit by a British minister to the communist-ruled island was almost 20 years ago.

Mr Taylor said that despite the two countries' different political and economic systems and the recession gripping Cuba, the British government saw good prospects for increased trade and investment. He said he was concerned Britain was lagging behind Europe and Nafta nations in developing economic links with the island.

Mr Taylor said he would be evaluating the economic reforms in Cuba since the collapse of its ties with the former Soviet bloc. Reforms to the state-controlled agriculture system were critical, he said.

He would also discuss the issue of Cuba's outstanding debt to the Paris Club and to British companies. The latter is estimated to total £60m.

Mr Taylor drew a distinction between Britain's attitude to Cuba and the US trade embargo against the island. "My view about our trade with Cuba is that it's less influenced by what America does, and more influenced by how strong Cuba's opening towards market forces is," he said.

UK exports to Cuba totalled £14m last year, a 50 per cent drop from 1992, caused by the recession and a shortage of foreign exchange. But exports for the first half of 1994 were up 180 per cent, mainly due to a rise in cereal sales.

Scandals and growth fears dent PRI win

Mexican investors are taking a cautious view of the new government says Damian Fraser

The euphoria that many investors expected would follow a comfortable victory by Mexico's ruling party in last month's presidential election has failed to materialise.

Since Mr Ernesto Zedillo emerged triumphant from the August 21 election, allegations of banking fraud and corruption, the opposition's refusal to endorse the electoral result, and uncertainty over economic policy have cast a cloud over the political and economic scene.

Investors – who had bet heavily on the Institutional Revolutionary Party's victory – appear more cautious than in the days before the election. The stock market has hardly budged from its pre-election levels. Contrary to most forecasts, short-term interest rates have risen, and the exchange rate has weakened.

The current nervousness over the political situation may soon fade. Having won more than 50 per cent of the vote, in elections many outside observers believe the freest Mexico has had, Mr Zedillo has a strong mandate to deepen the pro-market economic policies of President Carlos Salinas, and push ahead with further democratic reforms. Many expect Mr Zedillo's programme to boost economic growth and reduce political instability.

However, for the moment confidence has been dented by the order for the arrest of Mr Carlos Cabal Peniche, the head of Mexico's fourth largest financial group and of the Del Monte Fresh Produce agro-business, on charges that his banks illegally lent him $700m (£451m). Mr Cabal was one of Mexico's leading businessmen, with strong ties to politicians in the southeast and many entrepreneurs who have risen to prominence during the administration of Mr Salinas.

While the scandal appears not to have affected the stability of the financial system, the opposition has attacked the government for giving Mr Cabal two banking licences.

The incident may make foreigners more careful about backing Mexican businessmen. Mr Cabal's purchase of Del Monte Fresh had been partly financed by $300m of high yield bonds placed in international markets by Morgan Stanley.

The Cabal affair follows allegations by Mr Eduardo Valle, a former official in the Attorney-General's Office, that drug traffickers infiltrated the security team of the ruling Institutional Revolutionary Party's initial presidential candidate Mr Luis Donaldo Colosio, who was assassinated in March. Traffickers may have ordered the assassination, it is alleged.

Mr Valle separately raised questions about Mr Emilio Gamboa, the minister of communications and transport, who last November received in his offices a woman alleged to be the representative of a powerful drug cartel.

The Attorney-General's office has dismissed the allegations of links between drug traffickers and government and PRI officials, and Mr Gamboa has vehemently denied any impropriety. Mr Valle's accusations have damaged the credibility of the government's counter-drug operations, and are said to have divided the Salinas administration on how to respond.

These scandals have coincided with increasingly harsh attacks by the left wing opposition Party of Democratic Revolution on the conduct of the presidential election. Mr Cuahtémoc Cárdenas, the PRD's presidential candidate, has gradually hardened his line against the government, claiming that 10m votes were stolen. He has led rallies in two states against the results, and threatened to withdraw from future elections. His rallies have had little public support, but have emphasised the continuing and apparently unbridgeable divide between the PRI and the leftist opposition, which won 17 per cent of the total vote.

In the state of Chiapas, Zapatista rebels who launched a rebellion at the beginning of the year have backed Mr Cárdenas's cause.

While the leadership of the centre-right National Action Party has grudgingly accepted that the PRI won the election, radical factions in the party have supported Mr Cárdenas's position. Mr Diego Fernández de Cevallos, Pan's presidential candidate, after initially accepting defeat, has described the PRI's victory as illegitimate.

Feverish speculation over the policy and appointments of the new Zedillo administration has further heightened uncertainty. There is growing concern over the content of a new "pacto", the agreement between business, labour and the government under which price, wage and exchange rate policy is set.

Mr Zedillo is expected to set the general policies of the new pacto, even though he does not take office until December. While Mr Zedillo has publicly said he does not believe in a abrupt devaluation of the peso, there is speculation he may support an increase in the daily maximum depreciation of the peso/dollar rate of 40 centavos a day.

The possibility of a change in exchange rate policy has been heightened by a reported division between Mr Pedro Aspe, the finance minister, and the central bank, on the one hand, and Mr Guillermo Ortiz, the powerful deputy finance minister, on the other. The former are believed to support a strong currency to maintain the fight against inflation; Mr Ortiz is said to back a faster devaluation of the currency as a way of boosting exports and economic growth.

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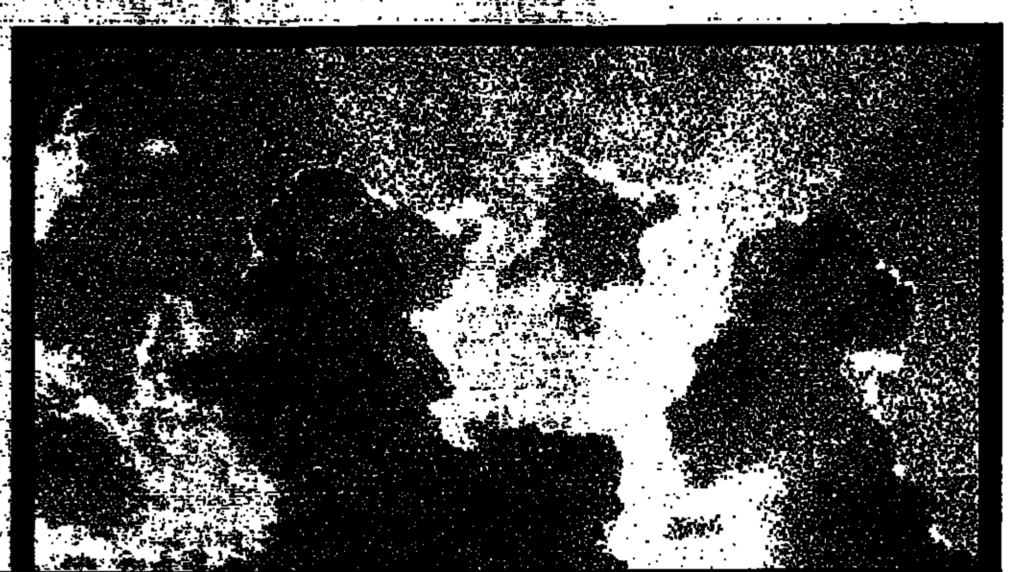

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Japan draws French flak on aircraft bid

By Gerard Baker in Tokyo

Mr Edouard Balladur, the French prime minister, has stepped into a growing political row over the Japanese government's selection of a new multi-purpose support aircraft for its air defence force.

Mr Balladur wrote personally last month to Mr Tomiichi Murayama, his Japanese counterpart, urging Japan to consider a French aircraft for its Y30bn ($303m) ground support project, codenamed UX.

The Self-Defence Agency had decided informally on August 11 to recommend a US-made Gulfstream aircraft in preference to rival bids from the French Falcon and Canadian Challenger models. But at a cabinet meeting the next day at least one minister is understood to have raised objections to the process by which the aircraft was selected, and the final decision was deferred.

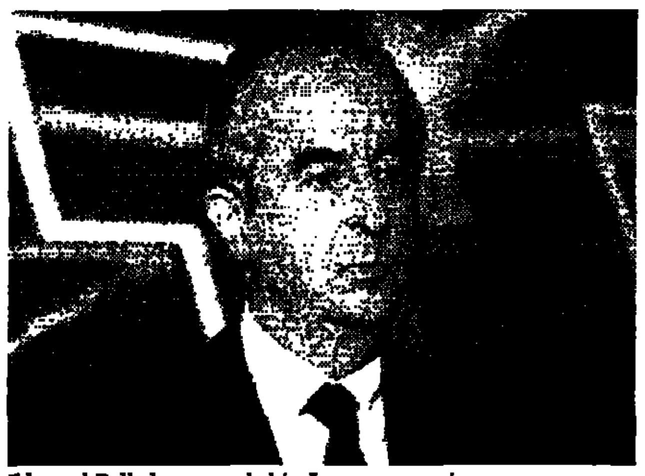
Ministers' doubts were said to have centred on the close involvement of some politicians from the former coalition government in the decision to back the Gulfstream bid. There were also concerns that the US aircraft may have been chosen to improve trade relations between the two countries.

Foreign Ministry officials yesterday refused to comment on newspaper reports that the French prime minister's letter, which was received in Tokyo on August 23, had demanded that the Japanese government select its military materiel through open competition, implicitly criticising the way in which procurement decisions are made. But they acknowledged that a letter had been received and that it urged the government to give full consideration to the French-made aircraft.

Mr Kozo Igarashi, the chief cabinet secretary, told a press conference yesterday that no final decision had been made on the project. But he said the letter seemed to have been based principally on considerations of national interest. "We should select our next generation aircraft objectively and rationally," he said.

French officials in Tokyo refused to comment on the correspondence but acknowledged it was unusual, but not unprecedented, for heads of government to intervene personally in such matters.

The Self-Defence Agency began preparing for selection of a new support aircraft three years ago. It plans to buy nine aircraft, at a cost of about Y3bn each, over the next five years. They will be used by the Japanese military to transport commanders and for communications and support of military exercises.



Edouard Balladur: appealed to Japanese premier

China lures auto component groups

Foreign entrants are reshaping an antiquated industry, writes Tony Walker

Like participants in a gold rush, the world's top automotive components manufacturers are scrambling for a niche in China. General Motors' Automotive Components Group, TRW and Ford of the US, Bosch of Germany, Toyota and Nissan of Japan, and Daewoo of South Korea are just some of the names competing in a sector expected to absorb $20bn of new investment in the next five years.

Fledgling groups are also entering the field, attracted by the promise of huge demand for components. American investors, including Dean Witter, the broking house, have backed, for example, the establishment of Asian Strategic Investments Corporation (Asimco) which plans to invest $1bn over the next two years.

Mr Don St Pierre, president of Asimco, expects a "revolution" in the components sector marked by a rash of joint ventures, mergers and the continuing rationalisation of small, inefficient producers. Many of China 4,800 components manufacturers are expected to go out of business, to be replaced by larger units with foreign involvement.

Asimco, which raised $160m initially for its China investments, recently concluded its first components deal, with Ningguo Rubber in Anhui province, to produce rubber seals, rings and gaskets. Asimco has another 10 similar deals pending, which are expected to be concluded over the next few months. Its investment in Anhui is $11m.

TRW, the big US space technology and automotive parts conglomerate, is enlarging its presence in China having signed a memorandum of understanding with Jinan Auto-Accessories Works, one of China's biggest components manufacturers, to produce about 14m engine valves.

Mr Joseph Gorman, TRW's chief executive officer, said the company wanted to be a "player" in China because of tremendous growth prospects in the world's fastest-growing automotive sector. He said he would not be surprised if, by early next century, half the 45m-50m cars sold annually out of a total global car "population" of 475m were marketed in Asia, with China accounting for the bulk of new sales.

China's new automotive policy, released in July, is providing the catalyst for a dramatic transformation of the components sector. Ambitious plans to supply from domestic production 90 per cent of China's estimated passenger car needs of 2m units by the end of the century will in itself create a huge demand for components.

In 1993 China produced 234,000 passengers cars out of total production nationwide of 1.3m vehicles. About 310,460 vehicles were imported, according to official figures, but this did not account for the thousands more that were smuggled in.

Strict local content rules and allied tax incentives mean that components manufacturers will be competing for a vast captive market. Adding impetus to the scramble is the demand by Chinese policymakers that international car makers qualify for permission to build vehicles in China by first investing in components manufacturing.

This requirement has drawn Ford, General Motors and Daewoo, to name several of the more prominent manufacturers, into investing heavily in China. Ford, for example, announced recently that it would spend $50m in two projects in the Shanghai area, one of the principal hubs of the automotive sector in China.

Ford's initial investments include ventures for the fabrication of plastic automotive items such as instrument panels, and safety glass for windscreens. Partners are the Shanghai Automotive Industry Corporation (SAIC) and Yao Hua Glass Works.

Mr David McKee, vice-president of Ford International Business Development in Beijing, said the company had "nailed down" the top 100 or so components manufacturers with a view to possible joint ventures. Of these, Ford had singled out eight to 10 as prospective partners with two to three deals close to completion in such areas as air-conditioning and electronics.

General Motors, through its Automotive Components Group, is engaged in a similar exercise in identifying investment opportunities. Mr Rudi Von Meister, ACG's chief representative in Beijing, said the company was "exploring" more than two dozen projects, and had recently signed a joint venture agreement to produce electronic engine control systems – the successor to the carburettor.

This joint venture and other pending deals build on ACG's existing arrangements in China, which include six licensing agreements for the production of such items as wiring harnesses, spark plugs, starter motors and alternators, and steering gears.

Daewoo of South Korea has also signalled its intention to be a big player in China, with the focus of its activities in Shandong province, south-east of Beijing. Daewoo, according to Mr St Pierre of Asimco, is planning to fund a number of components suppliers in Shandong, and also intends to absorb some of the product in its car making operations in South Korea itself.

Toyota is also reported to be moving towards heavy investment in China, although the Japanese continue to play their cards close to their chest. Among options being considered by Toyota is the construction of a "greenfield" plant near Tianjin to produce transmissions, engines and other key components for a compact car, possibly the Corolla, to be manufactured in China.

Across China, hundreds of projects are under negotiation in a process that, within a few years, will change the face of a hitherto antiquated sector.

Packard Electric, the US cable manufacturer, and China's Baicheng Automobile Wiring Factory will set up a joint venture in north-eastern Jilin province to make car parts, Reuter reports from Beijing. The venture, 53 per cent owned by Packard, will manufacture vehicle electrical systems, ignition cables and assemblies as well as automotive cables for other car makers in China, according to the Xinhua news agency. It said 20 per cent of the venture's products would be exported and that the venture, called Packard Electric Baicheng, would supply about 200,000 units of wiring harnesses each year for Audi and Jetta car made by a joint venture between China's First Auto Works and Volkswagen of Germany.

NEWS IN BRIEF

Greeks to build Gazprom link

A private Greek consortium has signed a protocol with Gazprom, the Russian state energy supplier, to build a $600m pipeline across Bulgaria to carry Russian oil from the Black Sea to the Mediterranean, writes Kerin Hope in Athens.

The 350km pipeline between the ports of Burgas in Bulgaria and Alexandroupolis in north-eastern Greece will take three years to build and will carry 20m-40m tonnes of oil yearly, with storage facilities for about 1bn tonnes to be constructed at the two ports. The Greek consortium includes the Latsis shipping and oil refining group, the Kopelouzos construction group and Prometheus, a joint venture between Kopelouzos and Gazprom. The Bulgarian and Greek state oil companies are also expected to participate in the project.

The pipeline will provide a new outlet for Russian oil, which will be sent by sea to Burgas from Novorossysk, and ensure a steady oil supply for Bulgaria. Gazprom and Prometheus are both involved in a Greek project, funded mainly by the European Union, to build a 500km pipeline to carry natural gas from the Bulgarian border to Athens.

Czech-German rail move

Czech Railways and Deutsche Bahn, its German equivalent, are to begin transporting freight trucks on roll on-roll off trains across the Czech/German border from September 25 in an attempt to speed up journey times and lower costs, writes Vincent Boland in Prague.

The service will run on the 110km rail link between Dresden and the Czech town of Lovosice, 65km north of Prague. A similar service across the Czech/Austrian border began operating yesterday between Ceske Budjeovice in southern Bohemia and Villach in Austria. The Czech/German link will initially carry 25 trucks daily but it is expected to be able to transport a quarter of the estimated 2,000 freight vehicles that cross the border each day. The journey time is expected to be 2¼ hours, with continuous customs facilities. The service will cost DM85 ($54) per journey, with the German state of Saxony covering any shortfall.

Iranian gas for Pakistan

Iran and Pakistan yesterday agreed to build an oil refinery in Pakistan and export Iranian natural gas and refined oil products to Pakistan, Reuter reports from Tehran.

An official said the Rs22bn ($719m) cost of the refinery would be shared by the two countries. Iran last year signed an agreement with India to study the building of a $5bn, 2,200km pipeline to export Iranian gas to India.

■ Skoda Plzen, the Czech engineering conglomerate, has signed an agreement with China's Guangzhou Jinma Power Equipment Company in Canton to produce steam turbine engines with a capacity of up to 25MW, writes Vincent Boland.

The terms of the agreement have not been disclosed. Skoda Plzen is taking a 70 per cent stake in the venture, which is targeted initially at the local Chinese market.

■ The Perkins unit of Varity Corporation of the US is to form a joint venture with Ishikawajima-Shibaura Machinery Company, based in Matsumoto, Japan, to build a range of small, low-emission diesel engines in Britain.

■ A Sino-Portuguese company, Administração de Aeroportos, has been awarded the contract for operational services at the new Macau airport. The venture is unusual in that ANA will hold a 51 per cent stake until December 1999, when Macau reverts to China, when it will concede two percentage points of its stake to the Chinese partner to give it a controlling interest. The contract involves all non-commercial operational management services, including air traffic and ground control management.

BMW points way with its first US assembly plant

BMW of Germany yesterday began production at its first US assembly plant, a key step in the overseas expansion of the European car industry, writes Kevin Done, Motor Industry Correspondent.

BMW becomes the only European car maker with a passenger vehicle assembly plant in the US, although it will be joined in 1996/97 by Mercedes-Benz, its big domestic rival, which is developing a plant in Alabama. Japanese car makers have been expanding rapidly in North America during the last decade, while the European presence has shrunk drastically.

None of the European volume car makers has a production base in the US following the move by Volkswagen of Germany to close its plant at Westmoreland, Pennsylvania, in 1987 after nine years of production.

BMW has invested $400m to develop its new plant at Spartanburg, South Carolina. It said yesterday that production would reach 300 cars a day by the end of 1996. Toward the end of the decade the capacity of the plant will be increased to 90,000 units a year.

Initially BMW is producing its 3-Series car range at the US plant, but from the end of 1995 the Spartanburg facility will become BMW's only production source for a new range of two-seater sports cars, which will be sold both in North America and in other BMW markets worldwide.

Mercedes-Benz is investing $300m to develop a plant near Tuscaloosa, Alabama, for the production of a new range of four-wheel drive sports/utility vehicles, which are to be launched in the world market in 1997.

The plant will employ 1,500 people and will produce 60,000 vehicles a year.

The European car production presence in the US will still be modest by comparison with the capacity developed by Japanese vehicle makers, which last year produced more than 2m cars and light trucks at 10 plants – wholly owned and joint ventures – in the US and Canada.

Delta presses US for rules on negotiations

By Paul Betts, Aerospace Correspondent

Delta Air Lines, the third largest US carrier, yesterday called on the US government to define a standard framework for negotiating bilateral aviation agreements.

Mr Ron Allen, Delta's chairman, also said he was increasingly frustrated at the failure of the US government to approve a partnership with Virgin Atlantic Airways to give Delta access to London's Heathrow airport.

Delta and Virgin have been forced to postpone the introduction next month of their commercial partnership because of the US government's delay in approving the deal. Mr Allen said he would be "shocked" if his government ultimately blocked the deal announced earlier this year with the smaller UK carrier. The partnership has been given the go ahead by the UK authorities.

Under present regulations, only two US carriers – American and United – can serve Heathrow. Delta argues its partnership with Virgin would increase competition on transatlantic routes.

Mr Richard Branson, Virgin's chairman, has recently been urging the UK government to step up pressure on the US to restart negotiations on liberalising air services between the two countries.

The US walked away from negotiations with the UK on liberalising air services between the two countries last December and has since refused to reopen talks.

In the absence of a clearly defined international aviation policy, the US government has been forced to react to each different bilateral negotiation without any standard framework, Mr Allen said. This led to considerable pressure on the US administration from the conflicting interests of US carriers.

American Airlines, the second largest US carrier which already flies into Heathrow, has led the campaign against the Delta-Virgin partnership.

The UK is now expected to propose a new round of negotiations and offer initially greater access for US carriers to regional UK airports in exchange for US approval of the Delta-Virgin deal as well as other concessions for UK carriers in the US market.

However, Sir Colin Marshall, chairman of British Airways, yesterday said he did not expect the talks to start before the end of next month. He said it was "ridiculous" that the US government had not approved the Virgin-Delta deal. The two governments needed to acknowledge publically that their ultimate aim was total deregulation of airline services between the two countries.

Although this was likely to take a long time to achieve, Sir Colin said it was important to establish clear milestones, with both sides making concessions to achieve the ultimate goal of "open skies".

INTERNATIONAL ECONOMIC INDICATORS: PRICES AND COMPETITIVENESS

Yearly figures are shown in index form with the common base year of 1985. The real exchange rate is an index throughout; other quarterly and monthly figures show the percentage change over the corresponding period in the previous year and are positive unless otherwise stated.

■ UNITED STATES

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	101.9	98.6	102.2	99.4	85.0
1987	105.6	100.7	103.8	96.7	76.2
1988	109.9	103.2	106.9	99.1	71.0
1989	115.2	108.5	110.0	101.1	74.9
1990	121.5	113.9	113.8	104.3	73.4
1991	126.6	116.3	117.3	107.8	74.2
1992	130.4	117.7	120.1	108.4	74.2
1993	134.3	119.2	123.4	107.7	76.6
3rd qtr.1993	2.8	0.7	2.5	−0.5	76.2
4th qtr.1993	2.7	0.3	3.0	−1.7	76.7
1st qtr.1994	2.5	0.2	3.0	−1.1	77.1
2nd qtr.1994	2.4	−0.3	2.4	−2.1	75.8
September 1993	2.7	0.4	2.5	−0.4	75.4
October	2.8	0.2	3.3	−1.5	75.9
November	2.7	0.4	2.5	−0.8	77.0
December	2.8	0.2	3.3	−2.7	77.3
January 1994	2.5	0.2	2.5	−1.1	77.8
February	2.5	0.2	3.3	−0.9	77.0
March	2.5	0.2	3.3	−1.3	76.5
April	2.4	−0.4	2.4	−1.7	76.4
May	2.3	−0.4	2.4	−2.3	75.8
June	2.5	0.0	2.4	−2.3	75.1
July	2.8	0.6		−2.4	
August		1.9			

■ JAPAN

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	100.8	95.3	101.4	103.4	118.4
1987	101.2	92.5	103.1	100.6	122.9
1988	102.2	92.3	107.8	98.2	131.0
1989	104.9	94.2	114.0	96.1	123.5
1990	108.2	95.7	120.1	98.3	108.3
1991	111.8	96.8	124.2	101.8	114.7
1992	113.9	95.8	125.6	111.0	116.3
1993	115.3	94.3	125.8	116.9	134.0
3rd qtr.1993	1.6	−1.8	0.4	5.3	140.7
4th qtr.1993	1.2	−2.1	−0.1	4.6	137.6
1st qtr.1994	1.4	−2.2	2.9	3.7	137.8
2nd qtr.1994	0.6	−2.0			140.0
September 1993	1.3	−2.0	1.5	7.2	139.3
October	1.3	−2.1	0.6	7.0	138.5
November	0.9	−2.1	1.7	3.4	138.7
December	1.3	−2.2	−1.1	3.4	135.9
January 1994	1.4	−2.1	4.5	3.4	134.5
February	1.4	−2.2	1.7	5.1	139.4
March	1.3	−2.3	2.4	2.6	139.4
April	0.8	−2.2	1.9	0.9	141.4
May	0.6	−2.0	0.8	0.0	139.2
June	0.5	−1.9			139.3
July	−0.3				
August	−0.2				

■ GERMANY

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	99.9	97.5	103.8	103.8	107.4
1987	100.1	96.0	108.0	107.1	110.9
1988	101.4	98.2	113.0	106.9	110.0
1989	104.2	99.3	117.3	108.0	107.6
1990	107.0	101.0	123.8	110.3	110.7
1991	110.7	103.4	131.8	115.0	106.1
1992	115.1	104.9	138.6	121.5	108.6
1993	119.8	104.8		125.9	110.2
3rd qtr.1993	4.2	−0.2	n.a.	1.6	109.6
4th qtr.1993	3.7	−0.2	n.a.	−1.7	109.9
1st qtr.1994	3.3	0.2	n.a.	−2.6	107.1
2nd qtr.1994	3.0	0.3	n.a.		107.5
September 1993	4.0	−0.3		1.6	111.2
October	3.9	−0.2		0.2	111.1
November	3.6	−0.2		−2.3	109.6
December	3.7	−0.1		−2.9	109.0
January 1994	3.5	0.0		−0.6	107.2
February	3.4	0.2		−4.8	106.6
March	3.2	0.3		−2.5	107.5
April	3.1	0.1		−6.7	108.9
May	3.0	0.4		−6.3	107.6
June	3.0	0.4			108.1
July	2.9	0.4			
August	3.0				

■ FRANCE

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	102.5	97.2	104.5	101.5	103.4
1987	105.9	97.8	107.8	103.0	104.8
1988	108.8	102.8	111.1	104.0	102.2
1989	112.6	108.4	115.4	105.3	99.8
1990	116.5	107.1	120.6	109.5	103.6
1991	120.2	105.8	125.8	113.8	102.2
1992	123.1	104.0	130.3	115.8	105.8
1993	125.6	101.1	133.7		108.5
3rd qtr.1993	2.2	−3.4	n.a.		106.5
4th qtr.1993	2.1	−2.2	n.a.		107.7
1st qtr.1994	1.7	−1.5	n.a.		107.5
2nd qtr.1994	1.7	−0.1	n.a.		107.3
September 1993	2.3	n.a.	2.3	n.a.	107.5
October	2.2	n.a.	–	n.a.	107.4
November	2.2	n.a.	–	n.a.	107.0
December	2.1	n.a.	2.2	n.a.	108.5
January 1994	1.9	n.a.	–	n.a.	107.5
February	1.8	n.a.	–	n.a.	108.9
March	1.5	n.a.	2.0	n.a.	107.9
April	1.7	n.a.	–	n.a.	106.5
May	1.8	n.a.	–	n.a.	107.3
June	1.8	n.a.	2.3	n.a.	108.1
July	1.7	n.a.	–	n.a.	
August	1.7	n.a.	–	n.a.	

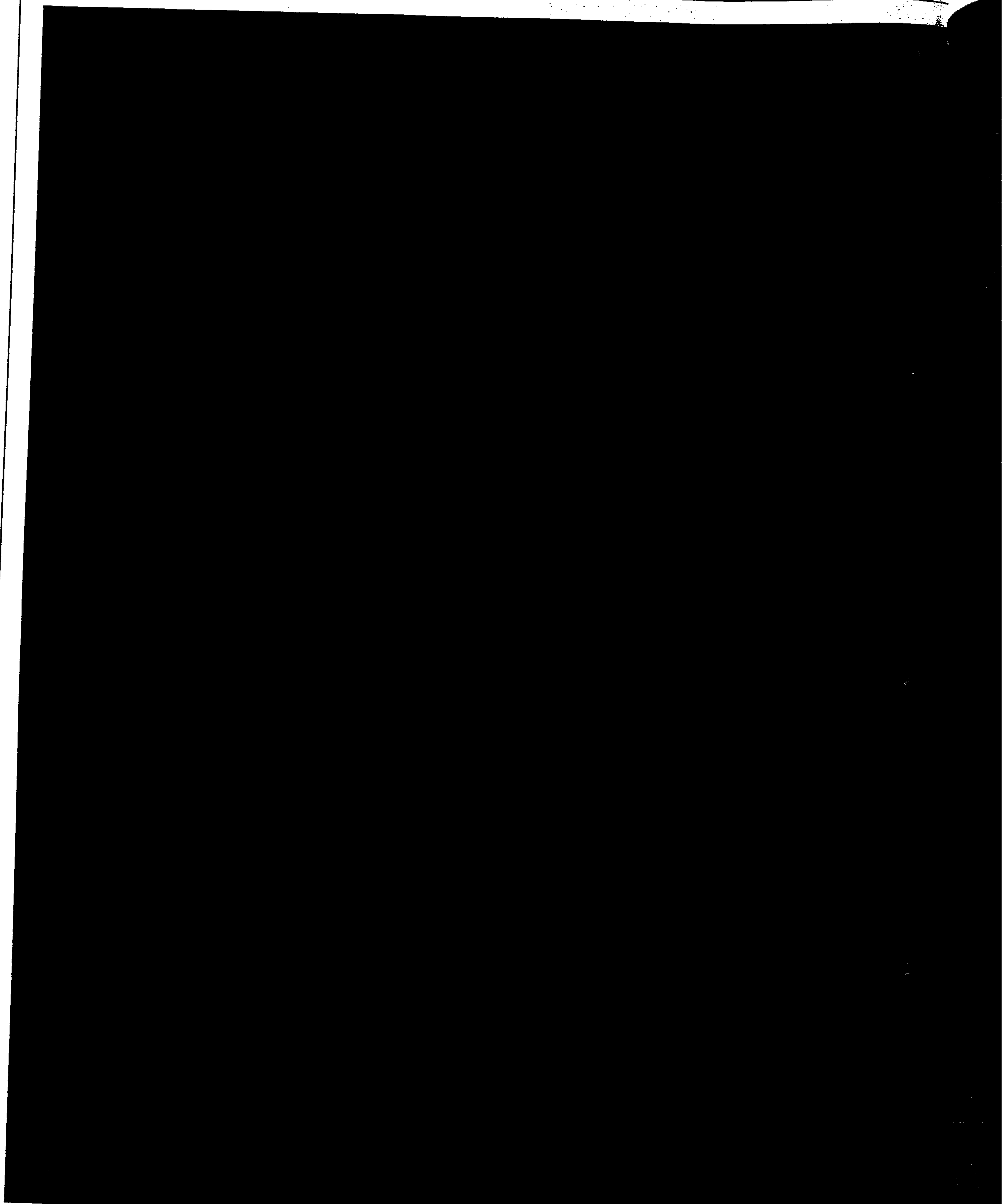
■ ITALY

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	106.1	100.2	104.8	102.7	101.3
1987	111.0	103.2	111.6	105.6	102.0
1988	116.5	106.8	118.4	109.7	100.2
1989	124.2	113.1	125.6	112.3	103.6
1990	131.8	117.8	134.7	118.8	106.2
1991	140.3	121.7	147.9	131.3	105.6
1992	147.7	124.0	155.9	136.8	101.9
1993	153.9	128.7	161.2	139.4	87.3
3rd qtr.1993	4.3	4.8	4.1	2.1	87.9
4th qtr.1993	4.1	3.9	3.8	−1.4	85.7
1st qtr.1994	4.2	3.5	4.2		85.1
2nd qtr.1994	4.0	3.1	4.1		87.3
September 1993	4.2	4.3	4.2	n.a.	87.0
October	4.3	4.1	3.9	n.a.	86.8
November	4.2	3.9	3.9	n.a.	85.6
December	4.0	3.7	3.6	n.a.	84.7
January 1994	4.2	3.5	4.0	n.a.	85.2
February	4.2	3.6	4.3	n.a.	85.5
March	4.2	3.2	4.5	n.a.	84.9
April	4.1	3.0	4.6	n.a.	87.4
May	4.0	3.2	4.6	n.a.	87.7
June	3.7	3.0	3.0	n.a.	86.5
July	3.6			n.a.	
August	3.7			n.a.	

■ UNITED KINGDOM

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	103.4	101.4	107.7	104.1	94.2
1987	107.7	104.9	116.3	106.6	94.6
1988	113.0	108.7	126.2	109.5	102.3
1989	121.8	113.9	137.2	114.4	101.3
1990	133.3	121.0	150.1	122.7	102.8
1991	141.2	127.5	162.4	131.3	106.5
1992	146.4	131.5	173.1	133.9	103.5
1993	148.7	136.7	180.9	134.5	95.7
3rd qtr.1993	1.6	4.3	4.4	1.4	97.1
4th qtr.1993	1.5	3.9	3.9	1.4	97.1
1st qtr.1994	2.4	3.3	4.8	2.0	98.5
2nd qtr.1994	2.6	2.2	4.4	0.2	96.8
September 1993	1.8	4.3	4.5	2.0	98.6
October	1.4	4.0	3.8	1.9	98.2
November	1.4	3.6	4.0	1.1	97.1
December	1.9	4.0	4.0	1.3	97.9
January 1994	2.5	3.7	4.8	1.7	98.8
February	2.4	3.4	4.4	1.8	98.2
March	2.3	2.8	5.3	2.4	97.5
April	2.6	2.2	4.7	0.7	96.9
May	2.5	2.1	4.3	0.8	96.7
June	2.6	2.1	4.2	-1.1	96.9
July	2.3	2.0			
August		2.3			

Statistics for Germany apply only to western Germany. Data supplied by Datastream and WEFA from national government and IMF sources, and by J P Morgan, New York. Consumer prices: not seasonally adjusted. Producer prices: not seasonally adjusted, US – finished goods, Japan – manufactured goods, Germany – industrial products, France – intermediate goods, Italy – total producer prices, UK – manufactured products. Earnings index: not seasonally adjusted, refers to earnings in manufacturing except France and Italy (wage rates in industry). Hourly except Japan (monthly) and UK (weekly). Unit labour costs: seasonally adjusted, measured in domestic currencies. Germany – mining and manufacturing, other countries – manufacturing industry. Real exchange rate: J P Morgan real effective exchange rate index versus 15 industrial country currencies, adjusted for change in relative wholesale price of domestic manufactures. A fall in the index indicates improved international competitiveness.



Labour heads for row over Irish policy as City of London police pledge to maintain security levels

Employers see Ulster peace dividend of £350m a year

By Michael Cassell, Business Correspondent

Peace in Northern Ireland could release £350m annually from the security budget within five years to help economic development in the province, according to the Confederation of British Industry.

A report prepared by the CBI Northern Ireland over the last six months and released two weeks into the IRA ceasefire says a permanent cessation of terrorist violence and a political settlement could have a profound impact on the local economy of Ulster.

The CBI calls on the government to develop a strategy which maintains existing public expenditure levels but which gradually redirects spending on law and order into a programme of wealth creation to offset job losses among security-related activities and suppliers.

The CBI warns that cuts in expenditure on security could mean substantial job losses and a sharp reduction in the number of army personnel based in the province.

The knock-on effect throughout the local economy could also mean extensive job losses among small traders and businesses.

But the CBI also estimates that any losses could be offset by the creation of 29,000 jobs and up to 20,000 places offering vocational training by 1999. It says, however, that significantly higher levels of employment growth might be feasible given a revival of the province's manufacturing base.

The report sees new jobs as a result of an increase in inward investment. In the last 20 years external corporate investors have created 500 jobs a year in Ulster and the CBI says this could now rise within two or three years to at least 2,000.

Other jobs, the CBI forecasts, should also emerge in the tourism industry, about 3,000 in the short-term and up to 10,000 longer-term.

● Labour is heading towards a major row at this month's annual conference in Blackpool over the future of its 13-year-old commitment to campaign for Irish unity by consent, adds Kevin Brown.

The row also threatens the future of Mr Kevin McNamara, shadow Northern Ireland secretary, whose attachment to Irish nationalism is regarded as out of date by party leaders.

The unity by consent policy - adopted in 1981 after a split over the Troops Out movement - has been under severe strain since the IRA announcement an open ended ceasefire last month.

Mr Tony Blair, the party leader, believes that Labour's commitment to persuade Ulster Unionists to agree to a united Ireland is out of date and could damage the prospects for a permanent peace.

Mr Blair is believed to favour a move towards neutrality which would allow Labour to support Northern Ireland's right to remain in the UK so long as the majority wish to do so.

● The IRA ceasefire is unlikely to mean a relaxation in the near future of tough security measures introduced to protect the the City following last year's bomb attack, according to the City's new police commissioner, Mr William Taylor, writes Jimmy Burns.

Tax cut hope dismissed by chancellor

By Philip Stephens, Political Editor

Mr Kenneth Clarke yesterday abruptly dismissed any prospect of tax cuts in his November Budget despite the shadow cast over next month's Conservative party conference by the rise in interest rates.

In a move that will dash remaining hopes among Tory MPs of a significant upturn in the government's political fortunes this autumn, Mr Clarke said there was "no chance" of lower taxes while the government was borrowing £30bn a year.

Yesterday's base rate rise and the chancellor's curt rejection of recent speculation that he might find room for a small income tax cut clashed awkwardly with the launch of the agenda for the annual party conference.

Mr Jeremy Hanley, the party chairman, inadvertently showed his anxiety about the impact on Tory morale by voicing hopes that there would be no further increase in borrowing costs.

Still discomfited by the political row that followed his weekend "gaffe" over law and order, Mr Hanley broke with the carefully scripted official response to comment: "What we have to do is make sure that this interest-rate rise is it."

With the Tories trailing Labour by more than 30 points in the opinion polls, the conference agenda reflects growing discontent among local activists over the government's handling of the economy.

It includes a chorus of demands from constituency associations for tax cuts and the scrapping of the planned doubling next April of value added tax on domestic fuel.

Ministers acknowledged that the strength of the economic recovery shown by the latest batch of indicators has yet to be reflected in a "feel-good" factor among the voters.

Their fear is that higher interest rates and the round of further tax rises due in the coming months will further damage the government's standing.

But Mr Clarke, in characteristically robust form at a Treasury press conference, coupled a reaffirmation of the government's medium-term commitment to lower taxation with a rejection of any early tax cuts. Speculation to the contrary was "hopelessly premature...not serious politics".

He acknowledged that public borrowing this year might be below the Treasury's latest £36bn forecast, but said it was still expected to be more than £30bn. Against that background, "talk of tax reductions in November is hopelessly premature. No chance".

A confident prediction that the electorate would eventually reward the government for its fiscal and monetary prudence was not shared by all his ministerial colleagues.

Some believe the chancellor was pushed into the move by Mr Eddie George, governor of the Bank of England. They want the chancellor to take a stronger line against the Bank's "over-cautious" stance.

Two of the UK's largest mortgage lenders immediately responded to the base rate rise with increases in their variable mortgage rates, while many other lenders signalled they would be announcing rises shortly. As they did so, a range of organisations and associations, including estate agents, housebuilders and lenders themselves, expressed anxiety that the increase would damage the uncertain recovery in the UK housing market.

Yesterday's news found the chancellor in characteristically robust mood but momentarily blinded by TV lights at Westminster

Kenneth Clarke's stock rises as he wrong-foots the forecasters

Gillian Tett and Philip Gawith find growing respect for the man but not so for the new system

Chancellor Kenneth Clarke's personal stock among City analysts was one of the clearest beneficiaries of yesterday's surprise base rate rise, which wrong-footed most of the market and provoked inevitable squeals from business and industry. For the decision to raise rates has lent credibility to the government's new low-inflation creed.

Part of the reason for the favourable reception lies in the underlying economics. With output growing fast and yesterday's producer price data providing one of the first hints that inflationary pressures may be in the pipeline, the government's argument that base rates must rise soon to avert inflation has already been widely accepted in the City.

But the real reason for the positive verdict yesterday was more political than statistical. For in taking the decision to raise rates ahead of the Conservative party conference, while most economic indicators suggest that consumer confidence is fragile, Mr Clarke yesterday went part of the way towards convincing the City that it is now economic factors, rather than short-term politics, that is determining the timing of interest rate rises.

As Mr Geoffrey Dicks, UK economist with Natwest Markets said: "It is a bold move for the chancellor to go to the party conference with rates having risen – indeed, to raise rates with inflation this low is probably unprecedented. It underlines to us the government's commitment to delivering low inflation in the medium term."

Mr David Mackie, UK economist at J.P. Morgan, added: "To my mind this can only improve the chancellor's reputation. This move suggests that although Norman Lamont [the previous chancellor] outlined the inflation target as being 1-4 per cent, the Bank of England and chancellor are now really aiming for 1-2.5 per cent."

But though Mr Clarke's own economic credentials may have been boosted, the verdict on the new system of monthly monetary meetings between Mr Clarke and Mr George remains more mixed.

On one hand, many analysts believe that the greater openness that now surrounds the meeting leaves the Bank of England with more of the credit for the latest rate rise.

Mr Jeremy Hawkins, chief economist in London at the Bank of America, for example, argues that the "the clear message" of yesterday's move is that "the Bank of England has much more independence in setting monetary policy than it has had in its history."

On the other hand, the logistics of the latest rise has also prompted complaints that the bank's method for announcing a rise is proving unnecessarily opaque.

The complaints may partly reflect red faces in the City. For following the bank money markets operations last week, which were widely interpreted as confirming that interest rates were unchanged, most economists arrived at their desks this week fully confident that a rate rise had been postponed.

For some economists like Mr Gavyn Davies, chief economist of Goldman Sachs who – like many – predicted no rate change, this points to an underlying weakness in the whole system. "The fact that the decision was delayed until Friday means that it is not being taken in the monetary meeting and that is less credibility enhancing. This is not the way the Bundesbank and the Fed operate."

Britain in brief

No10 sees abstention over Bosnia

BBC plans digital network

Free calls cost money

Labour unrest in companies

Exchange may relax rule

Farmers warn over nitrates

US watches water bomber

Last chance for Swans

Tax-free food for fast dogs

Sharp praises expertise but not quality of components

By Alan Cane

Team Lotus in trouble after poor racing form

By John Griffiths

FINANCIAL TIMES SURVEY

SAO PAULO

How industry has coped with economic crisis Page II

The social cost of rapid growth Page III

Tuesday September 13 1994

Angus Foster considers the challenges and opportunities facing Brazil's economic heartland

The priority now must be to spread wealth

It is sometimes tempting to imagine, sitting amid the opulence and consumerism of central Sao Paulo, that Brazil is a developed country. The city's rich are among Latin America's wealthiest and dine nightly at expensive European-style restaurants. Sao Paulo's companies make satellites, fighter aircraft and family saloon cars and are run by overseas-educated managers. In the city's commercial areas, portable telephones and computers are commonplace.

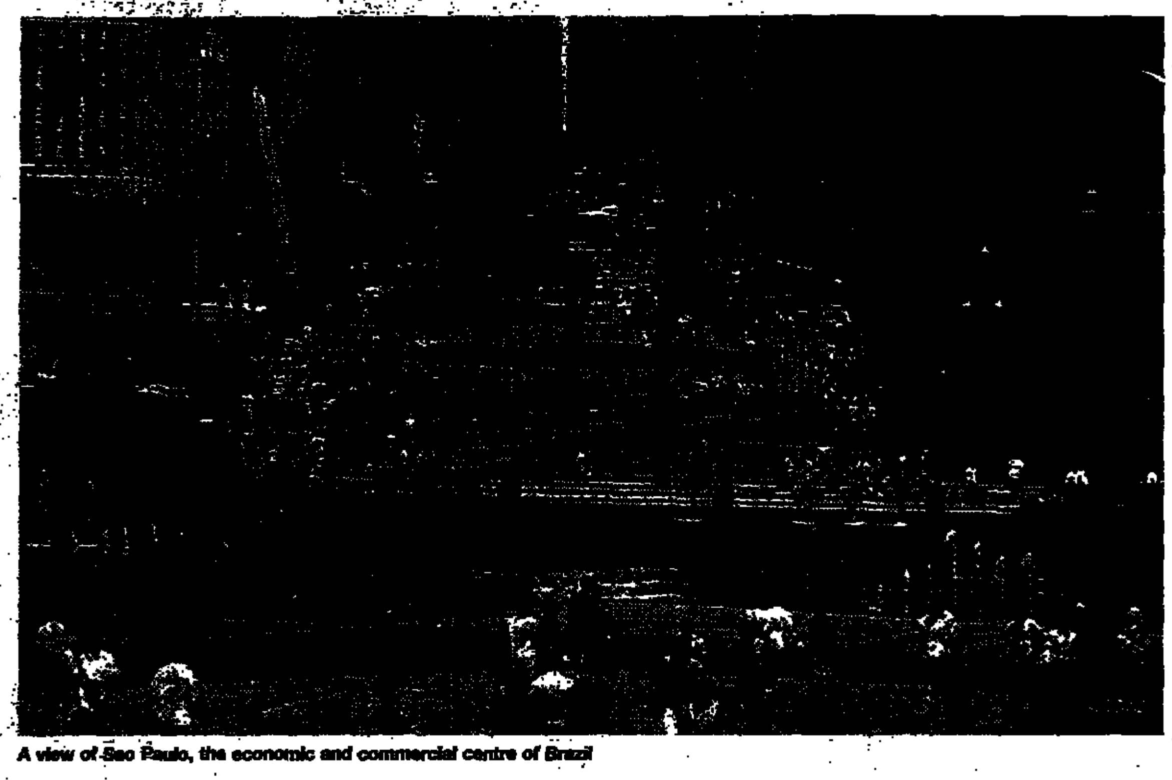
So it may at times be hard to understand, amid the poverty and hardship of the city's many shanty towns, how such vicious contrasts in wealth and opportunity can exist so close to each other. In the shanty towns, some families go weeks without meat, spend half their monthly wages on transport to and from work, and have to save up to telephone relatives in other states.

But these contrasts, the result of rapid urbanisation and one of the world's worst income disparities, are so common in Brazil that it is easy to become immune to their implications. For Sao Paulo, which has spent the last 50 years establishing itself as the country's economic and commercial centre, the urgent priority is to spread the wealth it is generating to a greater number of people.

Sao Paulo state is about the size of the UK. It is home to 31m people, of which roughly half live in and around Sao Paulo city. The state accounts for just under 40 per cent of Brazil's output, suggesting Sao Paulo's economy is slightly larger than Turkey's but slightly smaller than Belgium's.

Its companies are among the most dynamic in Latin America and nearly half Brazil's biggest 50 private companies have their head offices in the state. Its financial system has developed rapidly into the most important in South America. Sao Paulo is home to four of Brazil's five biggest private banks, and its stock exchange accounts for more than 90 per cent of trading in Brazilian shares. Together, Sao Paulo companies exported more than $13bn of goods and services in 1992, more than Argentina.

Despite these impressive numbers, Sao Paulo has had a tough few years as Brazil's overall economic crisis mounted. Deep recession from 1990 to 1992 squeezed domestic sales. Falling import tariffs opened some sectors of the economy to foreign competition. Industry laid off more than 500,000 people during the period as companies tried to improve productivity and adjust to an economy slowly opening to the outside world.



A view of Sao Paulo, the economic and commercial centre of Brazil

The improvement in the economy last year – Brazil saw real growth of 5 per cent – was significantly due to the car industry, one of Sao Paulo's most important. Helped by tax cuts and pent-up demand, the car industry reported its best year since the 1970s and production increased 30 per cent to 1.39m units.

Industry also gained from an improvement in retail sales, and evidence that companies were starting to invest in expanding capacity. Both trends have accelerated this year following the launch in July of Brazil's new currency, the Real. This has led to a sharp drop in inflation from about 50 per cent a month to less than 5 per cent.

If Mr Fernando Henrique Cardoso, the former finance minister who has the support of most businessmen, wins next month's presidential elections as expected, there is likely to be a further sharp increase in business confidence. His main opponent, the left-winger Mr Luiz Inácio Lula da Silva, is opposed by business groups because of his union links and radical plans in areas like land reform.

Whoever wins the election, the Real is the first rather than the final step in a programme to modernise Brazil's economy. The country's creaking tax and social security systems also need thorough reform. With the federal government facing a mounting budget deficit from next year, and claiming it cannot cut spending further, economic forecasting for even the short term is difficult.

For Sao Paulo's state government, the situation is equally troubled. While net debt has risen to $31bn, of which part was inherited from the previous regime, the state's main source of income, state value added tax, has fallen from $11bn in 1989 to $9bn because of economic recession and companies moving to other states.

These financial problems have seriously undermined the capability of the present government, under Mr Luiz Antônio Fleury Filho. They are also likely to hamper his successor, who is due to take office in January following elections next month. The winner is expected to be Mr Mario Covas, a former senator for Sao Paulo and a close ally of Mr Cardoso.

Mr Carlos Eduardo Moreira Ferreira, president of the Sao Paulo Federation of Industries, says Mr Covas will "suffer a lot. He will have to spend the first one and a half years recovering the government's finances. That's his priority," he adds.

But plenty of other priorities will land on Mr Covas's desk. Mr Vincent Paulo da Silva, president of the CUT union congress, says: "State governments only act in the case of emergencies or for electoral reasons. What we need, instead, is a government which does much more in terms of building infrastructure and providing education."

Mr Pedro Jacobi, who studies urban problems at the private Cedec institute in Sao Paulo, says his research shows that people's biggest concerns are air quality, violence and the lack of health centres. "What is worrying is that nearly 70 per cent of people said they expected the state to solve these problems, even though we are being told the state must shrink and is without the money," he says.

Given the speed of Sao Paulo city's growth as industrialisation gathers pace, taking the urban population from 1.3m in 1940 to 9.5m today, some of its achievements are impressive. Illiteracy, which in the 1950s extended to half the state's population, has fallen sharply to under 10 per cent of persons aged 10 or more. Sao Paulo is also one of only a few states in Brazil to have enough school places for all its children, although there are complaints about the quality and wages of its teachers.

But the challenges now are in areas more associated with developed economies as well. Sao Paulo needs to create secure and well-paid jobs rather than continue to rely on an expanding informal economy. Environmental concerns are only starting to be addressed.

Meanwhile, about 1m people still live in shanty towns, usually without adequate sewerage, and watch as the gap between rich and poor continues to widen. The poorest 50 per cent of Brazilians saw their share of national income fall from 15 to 12 per cent over last decade. They now earn less than the country's richest 1 per cent.

"What you see clearly is a level of social disintegration. It's a result of the lack of jobs, the effects of drugs in the slums and the extent of the social problems, and these have been increasing rapidly," says Mr Jacobi.

■ THE ECONOMY

A shift in the centre of gravity

Sao Paulo state remains the capitalist heart of Brazil. But its centre of gravity is gradually shifting from a traditional industrial base towards a diverse service economy responding to companies and consumers in what is easily the country's biggest market.

The state's 32m people, about a fifth of Brazil's population, produce 37 per cent of national wealth and a third of the country's exports.

Its industrial dominance was built on the state's coffee boom of the last century, which spurred a large influx of mainly European immigrants. Agricultural wealth combined with a growing and dynamic population fuelled industrialisation. This accelerated in the 1950s and 1960s with the arrival of multinational car, chemical and manufacturing companies, attracted by government attempts to spur Brazil's industrial growth.

Many welcome the move from industry to a more services-based economy

But today, like a heavyweight boxer who has spent too much time in the ring, Sao Paulo's industrial punch is gradually losing its power.

Between 1980 and 1991 its economy averaged an annual growth rate of just 0.6 per cent compared to 1.4 per cent for Brazil as a whole, according to Seade, the state's research centre. Sao Paulo's share of national wealth in GDP terms fell from 41 to 37 per cent during the period.

The state finance ministry puts Sao Paulo's gross domestic product at $215bn last year. But Brazil's economic statistics are often unreliable, and output was probably lower.

The growth slowdown has been caused because other parts of Brazil, particularly Minas Gerais and Paraná in the south-east, are catching up with Sao Paulo and attracting new industrial companies with cheap land, tax incentives and weaker unions.

Many Paulistas, as the state's inhabitants are known, welcome the move from the often polluting industrial companies to a more services-based economy. Services increased their share of state domestic product from 50 to 58 per cent between 1980 and 1991 while industry fell from 47 to 38 per cent, according to Seade.

Agriculture has also lost importance. From a dominant position in the 1940s, it now accounts for 3-4 per cent of domestic product, though the figure is higher if related industries such as food processing are included.

Unemployment has increased from an average annual rate of 8 per cent during 1985-1989 to 12-15 per cent since 1990, according to non-government statistics which include underemployment. The official estimate of unemployment at 5.9 per cent in June is widely agreed to be too low.

Job cuts are largely due to a general restructuring in Brazilian industry following the opening of the economy to international competition at the beginning of the decade.

For example, the jewel in Sao Paulo's economic crown is the car industry, which accounts for nearly 20 per cent

Continued on Page III

Angus Foster looks at how industry has coped with economic crisis

Costs are cut as jobs are lost

According to the doomsters, Sao Paulo's industry is on a knife edge. After years of suffering from Brazil's economic crisis, companies have underinvested in technology and skills. They must catch up now, while the country's economy looks to be strengthening, or face rapid extinction from foreign competition.

The situation is probably slightly more rosy, and certainly less simple, than the pessimists' predictions. Industry unquestionably has been damaged by the years of recession and economic "shock" plans. Manufacturing industry averaged a 1.3 per cent annual decline in output in the seven years to 1992 and investment rates have fallen 10 percentage points to 15 per cent since the start of the last decade.

But some sectors, including food processing, auto parts and wood products, have responded well. Industry as a whole has been forced to reduce its traditional reliance on government and look abroad for new export markets. Levels of productivity have risen sharply, although they will have to improve much further to match developed countries with which Brazil will increasingly have to compete.

Mr Antonio Corrêa do Prado, economist at Sao Paulo's Dieese Institute, says the state's industry bears the scars of the last few years. Employment in industry is below 1986 levels. Companies laid off 500,000 workers during the 1990-1992 recession alone.

"Sao Paulo's industry has performed in a typically defensive way in order to survive rather than expand," he says.

Investment and new technology have been limited, and have mainly been used to improve management and planning processes. The use of computer technology in production, for example in design, has so far been limited probably because of cost, according to Mr Prado.

Rather than invest, companies have spent the last few years trying to cut costs. The partial opening of Brazil's economy to imports in 1990, and the realisation of increased future competition, has forced many companies to restructure radically.

Industry has been forced to reduce its traditional reliance on government and look abroad for new export markets. Levels of productivity have risen sharply

The most visible result has been the drop in industrial employment. But most companies have improved efficiency in other areas too. It is a common refrain among businessmen that they are this year likely to produce more than in 1990 with only half the workforce.

Duratex, a maker of hardboard and bathroom fixtures with eight factories in Sao Paulo, has reduced its headcount from 14,500 to 7,300 since 1990. It has also moved its head office into two buildings instead of seven and cut the delay on delivering orders to the US from 65 to 10 days. "We realised we had to be competitive otherwise we would not survive," says Mr Plinio Pinheiro, executive director.

The rapid decline in industrial employment in Sao Paulo was seen as inevitable by companies' managements. But it has been fiercely criticised by union leaders. They say laid-off workers are being forced into service sector jobs which are often part-time and lower paid.

Mr Vincente Paulo da Silva, president of Brazil's main trade union grouping CUT, says that unions agree Brazil has to integrate with the world economy and develop high technology industries. "But this can only happen if workers participate. It cannot happen by throwing workers out onto the street," he says.

There have been some important agreements to retain labour in return for lower wage claims, such as the 1992 pact in the car industry. But industrial employment is likely to continue to fall in coming years, although at a reduced rate. New investment will be directed at technology, suggesting the state's economy will face a growing unemployment problem.

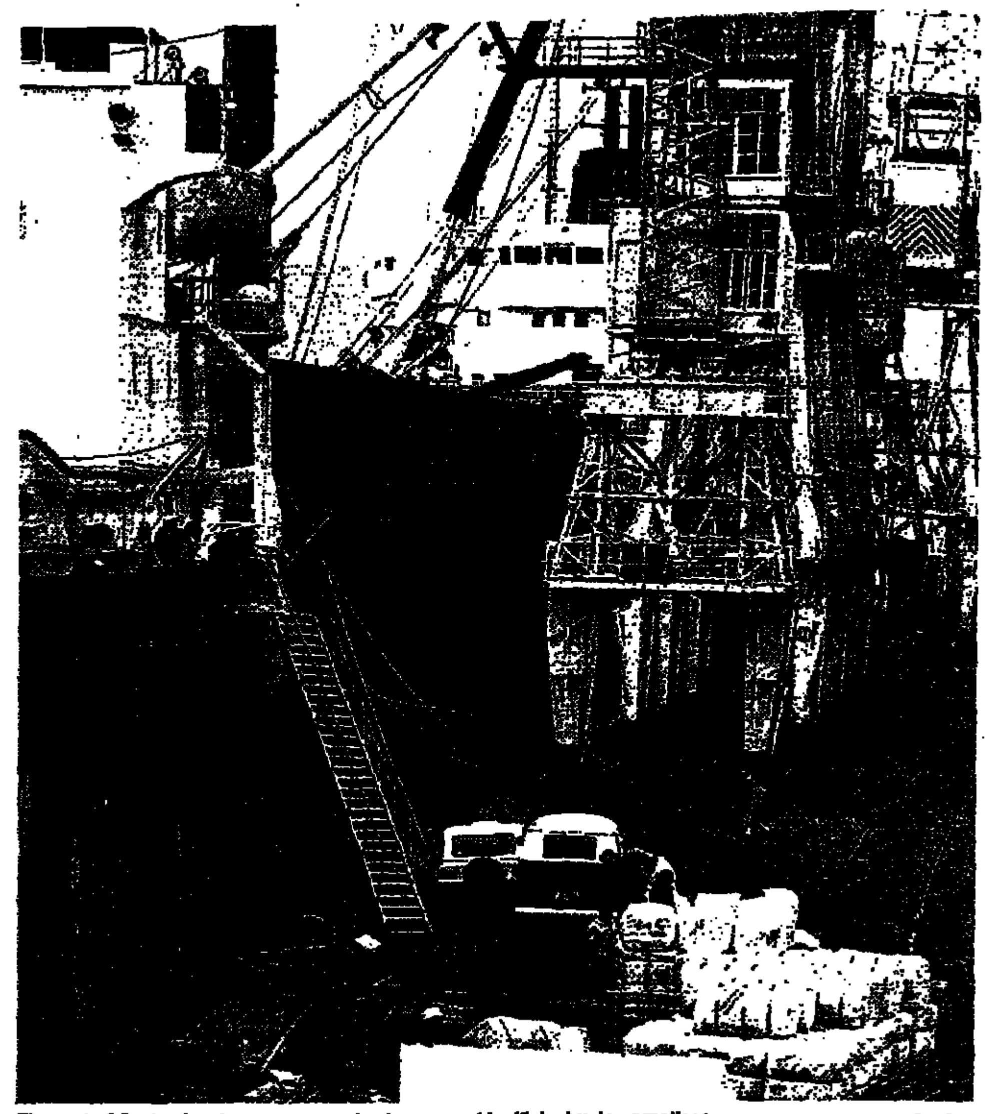
There is greater consensus between management and labour on the speed of further opening to the world economy. Average tariffs have fallen from 30 to 14 per cent since 1990. Both sides believe further cuts should be cautious and that industry needs more time to prepare for foreign competition.

Recent hints from the federal Ministry of Finance that import tariffs would be lowered in a bid to stimulate competition and lower domestic prices, have been broadly criticised.

Mr Carlos Eduardo Moreira Ferreira, president of the Federation of Sao Paulo Industries, believes the threats are bluff. "You cannot just junk our industries, we cannot accept a total opening yet. No minister of finance can unilaterally open our markets by abolishing tariffs. For a start, our industrialists are very strong politically," he says.

The financial problems of the federal and state governments have accelerated the state's withdrawal from economic decisions, a process which is set to continue. Government remains an important client for many industrial sectors, but the time of cosy relationships is over. "We are no longer waiting for the government, we have learned to survive without them," says Mr Moreira Ferreira.

One area where businessmen do want government action is the port of Santos in the south of Sao Paulo state. This is Brazil's most important, but has become expensive because of inefficient union practices. Mr Pinheiro says Duratex finds it cheaper to send its export products 1,000km by road to the state of Paraná rather than use Santos. Unfortunately for the businessmen, Mr Mario Covas, Sao Paulo's probable next governor, has strong backing among the Santos port workers, and may not be ready to listen to the complaints.



The port of Santos has become expensive because of inefficient union practices

Big changes in infrastructure planning may be needed

State looks to private sector stake in projects

Attempts by the financially-troubled state of Sao Paulo to privatise or contract out public services have met with delays, legal constraints and opposition by the state government and its companies.

But supporters of privatisation believe economic necessity will still force a radical change in infrastructure planning. They regard the state as ripe for development by private companies, sometimes in partnership with the public sector, and predict billions of dollars of private investment in projects over the coming decade.

The belief stems from Sao Paulo's attraction as the wealthiest and most industrialised Brazilian state and the fact that the squeeze on public finances makes building new motorways, power plants and other infrastructure projects increasingly difficult for the state, which has a total debt of around $31bn and a budget deficit this year of 25 per cent.

"We are seeing a shift in the balance between public and private sector, with private companies being given more space," says Mr Carlos Roberto Silvestrin, executive director of the Tietê-Paraná Development Agency (ADTP) and a former commercial manager at Cesp, the state-controlled power generation company.

The ADTP represents around 100 private and public sector companies interested in projects in the Tietê-Paraná region. This includes six Brazilian states plus Paraguay and Bolivia, although projects are concentrated in the key market of Sao Paulo. The ADTP envisages development projects totalling $20bn by the end of the century, particularly in energy but also in motorways, railways and public sanitation.

Much of the development is linked to plans for a gas pipeline between Bolivia and Sao Paulo. The pipeline plan foresees delivery of an initial 8m cubic metres of natural gas a day by 1997 to the Brazilian market, particularly Sao Paulo. But financing and final feasibility studies have still not been defined, although both sides hope to reach agreement by the middle of next year.

Another important project is the opening to navigation of the Tietê and Paraná rivers. Cesp, which draws hydro-electric power from both rivers, says it will complete the construction of locks along the waterway by the end of the year, making it navigable from the heart of Sao Paulo to the border with Paraguay and up to the Brazilian state of Goiás. The ADTP believes the waterway will become a catalyst for development of light industry and will be helped by the Mercosul common market that starts on January 1.

Private sector involvement will be especially important in energy projects, since Sao Paulo may encounter an "energy deficit" by the end of the decade. Cesp estimates that it will need to increase its installed capacity, now about 10,000MW, by about 600MW a year to the end of the decade to cope with demand. "It will be impossible for the public sector to pay for this expansion and the only alternative is to attract private investment," says Mr Antonio José Zagatto, Cesp's planning and development manager.

Although state-owned companies such as Cesp and the sanitation company Sabesp are involved in the ADTP venture, the state government's record in linking infrastructure projects to private investment has so far been disappointing, according to Mr Venilton Tadini, executive director of the Paulista Development Company.

This was created in 1992 by Sao Paulo businessmen, with the support of the state government, to produce viability studies for public sector concessions. At the same time the state government passed a law allowing such concessions.

"We have worked on reports including prison privatisation and highway concessions but often very little has happened once we have sent them to the state," says Mr Tadini, who blames opposition to privatisation among state officials and politicians.

Mr Luiz Antonio Fleury, the state governor who leaves office at the end of the year, also blames internal opposition as well as the lack of a federal law on concessions.

The only important result of Sao Paulo's 1992 law has been the beginning of tender processes for the concession of three stretches of motorway. Under these, private companies will be offered toll revenues for 20 or 25 years in return for maintaining the roads and building new stretches.

As well as resistance to change among old guard officials, other factors that have so far restricted private involvement in infrastructure projects include Brazil's economic instability and high inflation, which last year hit 2,500 per cent, and the lack of a federal framework in areas such as private energy production.

A federal government decree authorising independent power production (IPP) has been expected for months but so far not been issued. This measure is likely to allow private companies to build and operate power plants, selling the electricity to state-controlled distributors and, in special cases, directly to customers.

Mr João Magalhães president of the Brazilian subsidiary of US engineering company Bechtel, has been working on plans for an electricity station in Paulinia, Sao Paulo, for eight months, but says that uncertainties still include the lack of legislation and potential project finance problems.

Brazil's lack of experience in non-recourse project finance, also known as "stand alone" schemes, under which those undertaking to build a plant are not held liable by banks for delays or cost overruns, could prevent private and foreign companies taking on IPP schemes, says Mr Magalhães.

Under non-recourse financing, which was used for US independent power plants, banks make sure projects are watertight before giving loans. In Brazil projects often run into problems because loans are made for badly planned projects since the banks know they can recover their money from the building consortium whatever happens to the development of the project, he says.

But in spite of the uncertainties Mr Magalhães is convinced that sooner or later Sao Paulo will have to embrace private infrastructure projects such as IPP: "The market is there, the big question is when it will all start happening. I just hope they don't wait until there's an energy crisis before taking action."

Mr Silvestrin, while accepting that progress in developing projects could have been quicker, argues a big change is occurring in Sao Paulo and Brazil as a whole. The country's current economic stabilisation plan and the probable election as president of Mr Cardoso, as well as the increasing interest being shown by private and foreign companies projects, are all evidence of this, he says.

"We have even signed a memorandum of understanding between the ADTP and Mr Ron Brown, the US secretary of commerce, which shows the interest in Sao Paulo's potential," he says.

Patrick McCurry

All the delights of the big city

Sometimes dubbed "South America's New York" because of its dynamism, skyscrapers and mix of cultures, Sao Paulo is a monster of a city. While its sheer size and confusing layout often overwhelm, an energetic and friendly population combine with a lively nightlife to compensate, writes Patrick McCurry.

There are nearly 10m people in the city and about 15m in the metropolitan region, making it one of the biggest cities in the world. It is also one of the most cosmopolitan, thanks to the influx of millions of immigrants earlier this century.

There are descendants of Italians, Portuguese, East Europeans, Arabs and Jews and the largest Japanese population outside Japan. Recent decades have seen a big inflow of Brazilians in search of work, either from the state's interior or often from the poor north-east. Many of these ended up swelling the *favela* shanty towns dotted around the city.

Orientation is a problem, both for newcomers and Paulistanos, as the city's inhabitants are known. Because of its rapid and unplanned growth, the lack of natural landmarks and a confusing road system, even locals get lost.

Fortunately for foreigners there are plenty of taxis at all times of day. In addition, work and social life is often concentrated in relatively few areas. These include Avenida Paulista, which is the main financial centre, Jardins and Itaim Bibi. These are the districts where imported luxury cars are almost as common as locally made Fiat Unos and VW Golfs and where the flats are protected by 24-hour security guards.

Some visitors find these areas a bit characterless but they are a symbol of Paulistanos' American-style obsession with modernity. Because the city grew so quickly during the state's post-war industrialisation old buildings, including the mansions of coffee barons, were torn down to make way for office and apartment blocks. Today, blocks of flats built in the 1950s are considered historic.

The city's old centre, known as "centro", gradually lost importance in the 1960s and 1970s as businesses moved out to areas like Paulista and later to suburbs like Santo Amaro in the south. Today the centre retains its character and liveliness but is avoided by many middle-class residents because of parking problems and worries about crime.

Many Paulistanos like to contrast Sao Paulo with its rival Rio de Janeiro. Unlike Rio, they say, Sao Paulo is a "serious" city where hard work is rewarded. Cariocas, as Rio residents are known, dismiss Paulistanos as uptight workaholics too busy to enjoy the simple pleasures of life.

Nevertheless, foreign visitors frequently find that Paulistanos, like most Brazilians, are genuinely friendly and helpful.

In many ways Sao Paulo is trying to be an American city, or at least that seems to be the aspiration of many middle-class Paulistanos. A frequently unsatisfactory public transport system, worries about crime and the city's size have created a strong car culture.

For example, instead of taking a taxi or public transport many wealthy (and not-so-wealthy) Paulistanos would rather drive to the busy Rua Franz Schubert, a chic back street housing some of the most ritzy night spots, and queue for 45 minutes to park. When they leave, they will wait another 45 minutes while the parking valet finds and recovers their car.

Likewise, a popular evening out for middle-class families and adolescents is to drive to one of the city's shopping malls to eat, window shop, go to the cinema or just hang out.

For many living in the enormous industrial suburbs outside the wealthy pockets of the city and for the million or so *favela* residents, however, entertainment is more likely to be centred on the local bar.

Going out is one of the city's big attractions. Sao Paulo has a wide variety of restaurants thanks to its history of immigration, notably in the Japanese district of Liberdade and the nearby Italian neighbourhood of Bixiga. Paulistanos like to socialise late, often eating at 10pm, and then frequently carry on to a bar or jazz club until the early hours of the morning.

The city is a leading South American centre for theatre, concerts and exhibitions. Many of Brazil's outstanding musicians regularly perform in Sao Paulo while international performers and orchestras put on shows at the city's opera house, the Olympia venue or open air concerts in Ibirapuera park.

Top class football is another of Sao Paulo's leisure attractions. Despite losing many of their world cup stars to European teams, Sao Paulo FC, Palmeiras and Corinthians football clubs put on some of the best footballing shows in the world at city stadiums Morumbi and Pacaembu.

To escape the pollution and stress of the city, residents need no encouragement to head for the coast, about two hours away. The main resorts are Guarujá, Ubatuba and Ilhabela. These are packed in the summer months, particularly at new year and Carnival. In the winter, many make tracks for the weekend retreat of Campos do Jordão in the mountains three hours away from the city.

Useful telephone numbers: City code is 011. UK consulate: 287 7722. British chamber of commerce: 255 4286. US consulate: 881 6511. American chamber of commerce: 246 9199. German consulate: 262 8288. German chamber of commerce: 262 8906. Japanese consulate: 284 2184. Japanese chamber of commerce: 287 6233.

Stock exchange: 233 2000. Futures exchange: 232 5454. State government information office: 845 3476. State finance secretary: 259 4455. State governor's office: 845 3500. State planning secretary: 820 8589.

Tietê-Paraná Development Agency (ADTP): 282 2100. Sao Paulo Federation of Industries (Fiesp): 251 3522.

Hotels: Maksoud Plaza 252 4411, Ca'd'Oro 256 8011, Caesar Park 253 6622.

Patrick McCurry on the progress of Latin America's financial capital

Instability holds back the markets

While decades of high inflation have turned Brazilians into some of the world's most creative financial managers, this instability has also held back the development of the capital markets and its principal financial centre, Sao Paulo.

But things are changing. A more open economy, increasing foreign portfolio investment and the prospect of an end to high inflation could turn Sao Paulo into Latin America's chief financial capital.

During the last decade Sao Paulo has consolidated its position as the heart of Brazil's financial system. Its stock market has a capitalisation of over $130bn, making it the biggest in South America. It has the developing world's largest futures market and is home to most of the national and international banks based in Brazil.

Already this year many foreign investment banks and funds have opened offices in Sao Paulo, betting on an explosion in business as Brazil's big companies, most of which are based in the state, seek to finance expansion.

"Except for a handful of Brazilian banks still in Rio de Janeiro, all the big players have moved to Sao Paulo," says Mr José Monforte, Citibank's director of capital markets in Brazil.

This move began in the 1970s when Rio de Janeiro began to lose its position as the dominant financial centre. Sao Paulo's industrial strength, combined with aggressive targeting of new companies coming to market by the Sao Paulo stock exchange (Bovespa) were the main reasons for the change. Today, the Bovespa represents 90 per cent of the trading volume of Brazil's nine exchanges.

It is hoping that, with stabilisation, it will recover its position as Latin America's biggest stock market from Mexico City.

However, the Bovespa is a highly volatile market, lacking liquidity. Trading is concentrated in only a few shares and one company, the government-controlled telecom giant Telebrás, accounts for about half the trading volume.

Mr Alvaro Augusto Vidigal, Bovespa chairman, admits: "We have an underdeveloped market." Largely due to Brazil's economic problems, such as inflation of 2,500 per cent last year, there has been a fall in the number of listed companies and few capital issues in recent years.

But a more stable economy combined with rising share values should increase the attraction of the stock market for firms seeking investment capital, Mr Vidigal believes.

The concentration of trading in a handful of shares has been partly responsible for the volatility, according to Mr Julius Buchenrode, director of investments at Chase Manhattan in Sao Paulo. Investors have generally done well in the 1990s. The main Bovespa index more than doubled last year after falling slightly in 1992. The bullish trend looks likely to continue if the markets' preferred candidate, Mr Fernando Henrique Cardoso, wins presidential elections this year.

For foreign investment banks Sao Paulo has become a magnet, worth up to $1bn a year

Much of the index appreciation has been due to the opening of the market to foreign institutional investors in 1991. They now account for about 20 per cent of average daily trading volume, which has soared from $34m in 1991 to $278m in the first half of this year and approached $500m in August. According to Mr Vidigal, volume could reach $700m to $800m if economic reforms continue.

While equities have grown in importance due to foreign investment, Sao Paulo's local bond market has mostly stagnated. Brazil's problems have made raising capital through local debt issues extremely expensive for companies, which must pay interest rates of 25-30 per cent in real terms. Analysts say this market is likely to remain undeveloped in the short term as companies seek finance through equity issues.

Stabilisation reforms could also boost Sao Paulo's futures and commodities exchange, which has grown to become the fifth largest in the world with a daily average of 350,000 contracts, although this growth is partly due to Brazil's economic instability.

"The market's growth is obviously related to companies trying to protect themselves against Brazil's inflation," says Mr Marcos Eugênio da Silva, a University of Sao Paulo economist, referring to the fact that 60 per cent of the exchange's volume is in one-day interest rate futures. But a more stable economy with sustained growth would increase the exchange's business and lead to a lengthening of contract terms, he says.

Mr Manoel Pires da Costa, the exchange chairman, says future development will depend on the ending of government restrictions on foreign exchange transactions, which make it difficult to increase links with foreign futures exchanges.

As Brazil is one of the world's biggest exporters of coffee, soya and orange juice, Mr da Costa believes there is potential for attracting some of the trading in agricultural futures from exchanges in Chicago.

But, according to Mr da Silva, such integration is "wishful thinking" as it presupposes a stable and convertible currency, something Brazil still lacks.

A traditionally weak currency has, however, allowed Brazil's commercial banks to make large profits. With inflation eroding the daily value of Brazil's currency, banks have been able to invest their clients' money that is held in current accounts, or the values of cheques being cleared, in the high-yielding money markets.

Sao Paulo dominates the country's banking system. Twelve of the top 15 private sector banks, measured in terms of deposits, have their head offices there and the city's banks hold about half of all deposits in Brazil. The future for the banking system in a low-inflation environment is uncertain, especially for the less efficient state-owned banks. However, private sector banks will be able to expand on the back of increased banking charges and long-term consumer credit. Some larger state banks, including Sao Paulo's Banespa, will be able to rely on their asset bases and wide branch network.

For foreign investment banks Sao Paulo has become a magnet. After the 1980s debt crisis, Brazilian companies have gradually returned to the international debt and equities markets and the country finally sealed its Brady plan debt deal earlier this year. Commissions and fees from companies issuing securities abroad, local issues and mergers and acquisitions could soon total $1bn a year, say market analysts.

Longer term, optimists believe that Sao Paulo's role as Brazil's financial powerhouse will be extended with the growth of regional integration, particularly the Mercosul common market due to come into force at the beginning of next year.

"We are likely to see close links between Sao Paulo and Buenos Aires, including dual listings and the creation of a regional financial market," says Mr Monforte of Citibank.

A shift in the centre of gravity

Continued from Page I

of industrial production. Last year Sao Paulo produced more than two-thirds of Brazil's 1.4m vehicles but with fewer workers than in 1990 when around 900,000 vehicles were made.

Meanwhile, General Motors' Brazilian subsidiary is expected to build a new plant for 100,000 vehicles a year outside the state, possibly in neighbouring Minas Gerais. The company decided not to expand its plant in Sao Jose dos Campos, Sao Paulo, because of poor labour relations, though some industry observers believe the financial incentives offered outside Sao Paulo were perhaps more important.

Mr Carlos Azzoni, an economist at the University of Sao Paulo and a former planning official in the state government, says: "Part of the problem has been that the state government has not been as aggressive as others in trying to attract companies."

However, the state government has been preoccupied with financial problems, which have made it difficult to find money to improve the state's infrastructure, traditionally one of Sao Paulo's biggest attractions for companies. Partnerships with the private sector are on the agenda but have so far made limited progress. Some large projects, such as an extension to the city's underground rail network and a clean-up of the river Tietê, are receiving support from multinational agencies.

Mr Azzoni argues that improved transport and communications infrastructure in other states has allowed companies to move production out of Sao Paulo, but still retain access to its consumer market. "(Companies) will continue to keep their head offices in Sao Paulo but open new plants where it's cheaper," he says.

The move from industry to services has led to Sao Paulo evolving towards a "qualitative not a quantitative importance," says Mr Azzoni. Nowhere in Brazil is there such a concentration of universities, research centres and high tech companies. About 80 per cent of Brazil's scientific and technological research is carried out in Sao Paulo, according to Mr Pedro Paulo Branco, director of Seade.

The success of Brazil's current stabilisation plan would give a big boost to Sao Paulo, according to Mr Branco, who says that because of its diverse economy, good infrastructure and well-trained workforce it can recover far more quickly than the national economy.

Others believe stabilisation will provide only a short-term industrial turnaround and that Brazil's economic centre of gravity is inevitably dispersing to other regions. Similar doubts exist over the importance of the Mercosul free trade area for the state. Some believe Mercosul will mainly benefit states to the south of Sao Paulo, while others point to the development of a powerful economic axis linking South America's two biggest consumer markets: Sao Paulo and Buenos Aires.

Whatever happens, Sao Paulo will still remain in the middle of a hugely important consumer market and industrial region, including Rio de Janeiro and Minas Gerais to its north and developed states like Paraná and Rio Grande do Sul to its south.

Patrick McCurry

Social conditions may be about to improve, reports **Angus Foster**

Cost of growth on the environment

Sao Paulo city is an ill-fitting muddle of the developed and developing world. While all but the poorest houses have electricity and running water, less than half the city's domestic sewage is treated. Infant mortality and illiteracy are among the lowest in Brazil, but levels of violence and air pollution are among the highest. While the city's population growth has slowed considerably, at least 1m people still live in shanty towns, known as *favelas*, which dot the city's outskirts.

This dichotomy has its roots in Sao Paulo's rapid growth over the past 50 years. Until the second world war, the city was a provincial centre grown rich on coffee profits. As industrialisation gathered pace, it attracted immigrants from poorer parts of Brazil, especially the north-east. Between 1940 and 1970 the city grew at about 5 per cent a year, from a population of 1.3m to 5.9m.

Growth started to slow only in the 1980s, but not before the population had nearly doubled, reaching 9.5m in 1991. Industrial suburbs that were once separated from the city by green belts have merged into a single urban sprawl. If these suburbs are included, the population of the greater Sao Paulo metropolitan area is over 15m, making it the largest urban centre in South America.

Sao Paulo's attraction has always been its economy. Until the beginning of the 1980s, industrial employment grew steadily and offered even semi-skilled immigrants the chance of relative prosperity. As Brazil's economic crisis struck in the 1980s, Sao Paulo's informal economy – ranging from armies of street sellers to gambling networks – provided a cushion against rising unemployment.

Families have continued to arrive in the city over the past 10 years, although in much smaller numbers. Many still regard a poorly-paid job with a one-room apartment in Sao Paulo as preferable to staying in Brazil's rural areas. In the city, they have access to better services and opportunities for their children.

Violence and other crime are linked to the continuing process of urbanisation

Sao Paulo's rapid growth extracted a very high price from the city's environment. Urban growth was so rapid it overlooked the desirability of keeping "buffer" areas undeveloped to improve leisure options and air quality. Extreme reliance on automobiles means air quality is usually poor. The city's main river, the Tietê, has become overburdened. Every day, it has to digest more than 1,000 tonnes of organic waste and about three tonnes of untreated inorganic waste, including chemicals and heavy metals; however, a state government clean-up is under way.

There has also been a heavy social cost. The need to accelerate government spending on infrastructure and education has left other sectors underfunded. In the southern municipality of Diadema, which grew rapidly from the 1960s because it is close to Sao Paulo's car manufacturers, health centres are only now being installed.

The public transport system has also failed to keep pace. Despite the city's size, its underground railway system is still restricted to three lines. In satellite cities around Sao Paulo, workers have to rely on buses and poor traffic conditions. Father Antonio Carlos Frizzo, of Guarulhos, near Sao Paulo's international airport, says that his parishioners spend three hours a day on buses getting to and from the city.

The heavy strains imposed by such conditions are one reason for the growth of radical protestant churches. Social strains have also led to growing violence. In some poorer suburban regions, the murder rate is 90 per 10,000 inhabitants. However, there are areas of low violence, mainly in the centre. The city's overall murder rate is only slightly higher than New York's.

Col Hermes Bittencourt Cruz, of the Sao Paulo police, links violence and other crime to the continuing process of urbanisation, poor education and one of the world's highest income disparities. "Violence is a perverse result of disorganised development," he says.

Mr Paulo Sérgio Pinheiro, of the centre for the study of violence at the University of Sao Paulo, complains of a lack of resources and skills in the judicial and police systems. In Sao Paulo there is one judge per 20,000 people, compared to one per 5,000 in Europe.

Despite these challenges, Sao Paulo's rapid fall in population growth will allow better planning of infrastructure and services in the years ahead.

Along with the rest of Brazil, Sao Paulo is also developing some institutions that are common to industrialised economies – from health and education networks in the shanty towns to environmental pressure groups. "We have grave institutional problems, but our civil society has changed tremendously in the last 30 years," Mr Pinheiro says.

MANAGEMENT: THE GROWING BUSINESS

William Dawkins looks at how Japan's subcontractors are coping with customer demands and a rising yen

Breaking with tradition

Japan's army of subcontractors, the hidden muscle power of its industrial economy, are learning the hard way that they must become more than mere foot soldiers to survive.

Their famed ability to cut costs and increase efficiency is coming under unprecedented strain as subcontractors' powerful customers demand another round of price cuts, for a record fourth year running.

Just as Japan seems to be on the brink of coming out of recession, subcontractors are being asked to shoulder their share – some complain even more than their share – of the cost disadvantage inflicted by another rise in the yen's value.

A look at the contrasting experiences of three subcontractors around Osaka, the heartland of Japan's electronics industry, shows that the pressure on costs has started to disturb – but not destroy – the formerly intimate bonds between parent companies and their multiple domestic suppliers.

It also indicates that suppliers able to follow their clients to cheaper locations overseas, especially in the rest of Asia, are most likely to prosper.

Takizawa Precision Gear, a producer of machine-tool gears with 14 staff, has taken a traditionally Japanese approach to a problem, by stepping up the search for internal self-improvement.

Its neighbour, Meisei Metal Industries, a 140-person maker of metal dies for the car industry, has joined forces with other subcontractors to seek economies of scale. Showa Plastics, a producer of plastic casings with 2,200 employees, has behaved like a Japanese multinational. It has closed more than half its domestic production and relocated next to its Japanese buyers' new overseas plants.

The trio hold very different ranks in Japan's feudal-style industrial structure, but they share one thing: the realisation that near total dependence on a single large client is not the guarantee of survival it used to be for most of Japan's post-1950s economic expansion.

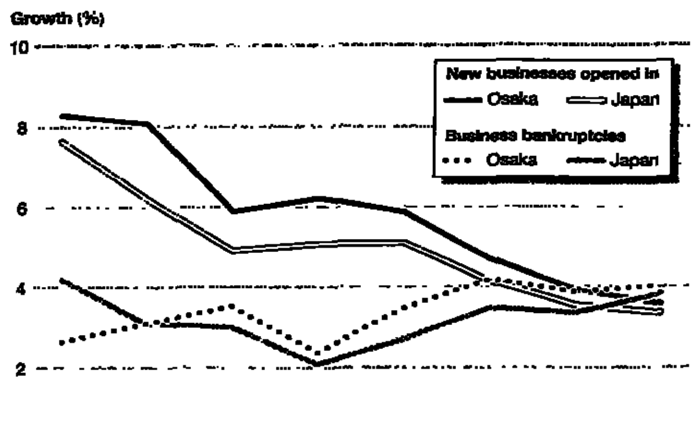
Local bankruptcy figures are a grim illustration.

At the start of Japan's recession in 1991, bankruptcies in Osaka grew faster than the number of new businesses for the first time. The sad trend has stayed that way, says Moriyuki Tsuda, director of industrial research at Osaka prefecture.

"Customers are less loyal than in old times," says Kiyoshi Takizawa, president of Takizawa Precision Gear.

"Sooner or later 20 per cent or 30 per cent of companies in our field will go out of business," says Yozo Ueda, vice-president of Meisei Metal Industries.

Osaka's struggling subcontractors



Source: Osaka Prefectural Government Institute for Industrial Development

"Toshiba, Hitachi and Sony are more willing to buy from me in Singapore than in Tokyo. They won't even see me in Tokyo," says Kenzo Nakagawa, president of Showa Plastics.

Takizawa is at the bottom of a so-called "co-prosperity" pyramid, headed by Osaka-based Matsushita, Japan's largest consumer electronics group. The upper echelons include about 500 prime contractors – closely bound to Matsushita – while Takizawa is among the more than 6,000 smaller suppliers which will also sell to several other large companies.

The parallel with the feudal system becomes visible on visiting Takizawa's plant, part of an enormous industrial village and consisting of a dense jumble of factories, rice fields and homes on the outskirts of Osaka.

Takizawa, whose father founded the business 44 years ago, devotes 40 per cent of annual sales to his top three customers. This is a big enough exposure to make it impossible for the company to resist their demands for price cuts of between 5 per cent and 15 per cent every year for the past four years.

Sales have shrunk from Y300m (£1.95m) to Y200m over the same period, perilously close to Takizawa's Y180m break-even point.

Instead of sacking his tiny workforce, Takizawa has instead increased spending on training, borrowed Y50m to re-equip with Swiss machine tools and carried out an engineering cost analysis.

His strategy of investing through a recession was typical of Japanese industry in the 1980s, but was widely abandoned in the recent downturn.

Meisei Metal has had to accept price cuts of up to 30 per cent this year

Takizawa justifies sticking to the old invest-or-die approach on the grounds that the company has few foreign competitors, operating with the advantage of cheaper local currencies. This allows him to market more on quality than on price.

Takizawa admits, however, there is nothing they can do if the Japanese market continues to shrink. His clients, he says, hold his business hostage. "We only supply a small part of a big machine," says Takizawa.

Meisei Metal is slightly higher up the feudal ladder than Takizawa, yet it is even more vulnerable because its top three buyers account for 85 per cent of sales.

It has had to accept price cuts of up to 30 per cent this year, and as a result it made a loss of Y100m in the first six months of the year – its first of the recession. The loss would have been larger if Meisei had not turned away demands for 50 per cent price cuts from some buyers, says Ueda.

Like Takizawa, Meisei has few direct foreign competitors. But given the domestic overcapacity in Japanese die-making, Meisei has had to find a way of making itself more attractive than Japanese rivals. "We believe co-operative manufacturing is the key," says Ueda.

He is referring to the formation two years ago of a joint company by Meisei and three other subcontractors to service the needs of a single car company, which Ueda prefers not to name.

The subcontracting group, called Must – after the initial letters of its members – pools design, marketing and finance to save costs.

It also saves costs for the customer by reducing the number of suppliers the buyer has to handle. Several of Meisei's competitors have adopted the same strategy and the company may launch Must-type groups for other buyers.

Showa Plastics, while much bigger than Meisei and Takizawa, is more sensitive to foreign competition because its products go straight to assembly plants, where its consumer electronics industry patrons have led the way in establishing low-cost operations in Europe and eastern Asia.

Showa, another member of Matsushita's co-prosperity pyramid, has shifted 60 per cent of its Y20bn turnover out of Japan, mainly into neighbouring Asian countries, since the early 1980s.

It has been helped by the natural preference of its Japanese customers' overseas subsidiaries to take a Japanese supplier, says Nakagawa, who is a keen advocate of the borderless economy propounded by his fellow Osaka resident Kenichi Ohmae. Where possible, he has used local funding and local staff, so that nearly half of Showa's employees are now Chinese speakers.

In the past five years, Showa has closed four of its eight Japanese plants and reduced its domestic workforce from 550 to 150.

This is unusually aggressive restructuring by the standards of Showa's Japanese competitors, who pride themselves on not cutting jobs. "We were lucky, because 60 per cent of our Japanese workers were part-time, so we just didn't renew their contracts. They easily transferred to other jobs, mostly on higher pay. But we can't restructure on that scale again," says Nakagawa.

Showa's rapid foreign expansion has helped it to broaden its client base, so that the top three now account for 40 per cent of sales, from 75 per cent in the mid-1980s. But the most important benefit of moving production out of Japan is, as its customers have found, to protect Showa from the yen's inexorable rise, the main factor in the price pressure on Japan's subcontractors.

Showa's prices have fallen by 30 per cent during the past four years. Overall unit costs have also fallen, helped by the decline in foreign currencies against the yen, far enough to allow Showa to increase its profits throughout the downturn.

Many of Japan's subcontractors followed their big clients into the US and Europe in the 1980s – indeed, Showa has a plant in the UK.

A second wave of suppliers is now moving into Asia, leaving their domestic counterparts to struggle for market share in a Japanese economy that is unlikely to return to the heady growth rates of the 1980s in this decade.

When big is seen as better

Richard Gourlay on how Trinity Capital found a way to grow

More consolidation within the UK venture capital industry will be announced today. Trinity Capital, founded 10 years ago by John Walker and Ron Sheldon with a brief to invest in high-technology growth companies, is to become part of Advent International.

Walker will take over as managing director of Advent International's European operations, replacing Doug Brown who becomes chairman of Advent International Europe and worldwide chief investment officer.

The two groups say they will be combining Advent's European strength in speciality chemicals, media companies, information technology and communications with Trinity's expertise in the healthcare and environmental sectors.

But the fundamental reason is that Trinity would not have been able to raise a new fund to invest at the size it desired in growth companies. By finding a home within Advent International, another specialist lender, which has $1.4bn (£909m) under management worldwide and has just raised $315m to invest in western Europe, that is no longer an obstacle.

"This allows us to do the kind of investing that we could not do before," says Walker.

Trinity had wanted to move towards investing in companies at a later stage of their development, when they would generally already be making profits and require larger sums of development capital.

"Our experience was telling us we needed larger deals," Walker says. He needed to raise a £100m fund and would not have been able to do that given the returns on Trinity's existing funds.

Brown says the merger gives Advent two sectors in Europe where it has not been very active and also more British directors. "We are redeploying Trinity's skills into that sector of the market that will be dominated by larger deals," he says.

"Trinity was really relegated to the smaller ranks by the size of the funds they were managing."

The market has known for some time that Trinity has been considering a merger. Other groups talking to Trinity included Rothschild Ventures, industry sources say.

The financial structure of the transaction is interesting. When Mercury Asset Management bought Grosvenor Ventures in February in one of the most significant consolidations in the industry, it paid £4.5m.

Walker says no money is changing hands in Trinity's merger with Advent International; Trinity's partners will retain rights to any carried interest in its four funds which have invested £75m. "This is an investment in the future and not in the past," he says.

The consolidation is more proof that the ranks of early-stage development capital financiers are thinning out.

Walker says Trinity's returns have been "on the border line". While its venture capital returns would be competitive with other early-stage investors, this return does not stack up against the returns achieved by funds concentrating on management buy-outs, he says.

Trinity and Advent International have co-operated on deals over seven years, and say they share a common style in trying to develop growing businesses.

Five of Trinity's active executives will join Advent, including Sheldon. Of the other three, two will remain with responsibility for a 3i-backed innovation fund and will be found a home by 3i, according to Walker.

The other partner, Philip Percival, who concentrates on IT and therefore overlaps with an existing area of Advent expertise in Europe, will be "pursuing other interests", Trinity says.

As Walker moves forward with a new partner and more power to underwrite deals than he has had before, he has a word of advice for other smaller fund managers.

"It is my view that those who sort their future out now have better options than those who run out of money," he says.

TECHNOLOGY

Andrew Derrington hears why research science is different in the private and public sectors

The price of freedom

Business and academia have drawn closer in recent years in the UK, but cultural differences can still stand in the way of a fruitful relationship.

Oxford University's Department of Experimental Psychology, for example, has carpet tiles that need to be stuck back into place whereas research facilities in the private drugs sector are sparkling – Glaxo's new £670m complex at Stevenage, for instance, gives visitors overshoes to protect the marble floors.

Such differences are often more to do with funding than with culture, but represent one facet of a more profound gulf between academic and industrial research. The two communities "operate in entirely different ways", says Sue Iversen, head of the Oxford department.

Iversen knows both disciplines from the inside. She was an academic at Cambridge University until 11 years ago, when she moved to the drug company Merck, Sharp & Dohme. At the time, says Iversen, her research was "on an all-time high", but she was drawn by "the challenge of having huge resources to design a laboratory from the ground up".

Although "very satisfied with my time at Merck", Iversen felt ready for a new challenge, and came back to academia after 10 years because "the only job I had not done was to run a major university department".

Now at Oxford, Iversen carries out research on the brain's chemical messenger systems and their relationship to anxiety, schizophrenia, and Parkinson's disease – an area of intense activity in both sectors. Academics want to understand how these fundamental mechanisms of the brain control our behaviour. Drug companies want to develop treatments for the disabling illnesses that result from their malfunction.

It is the difference between these two goals, says Iversen, that leads academics and industrialists to operate differently.

In the universities, neuroscientists set their own research agendas. Independence and academic freedom are not only fundamental, but are taken for granted.

But academics feel they pay dearly for their freedom. They can decide what research they want to do, but there is no guarantee it will be funded. Less than a quarter of the best projects are successful in the national competition for research funds. A consequence of this can be that second-rate academics succeed by being good at marketing their ideas.

In drug companies, wasting expensively trained human capital on under-resourced research projects would be unthinkable. Research priorities are set by the company's needs and goals.

This trade-off between resources and freedom figured heavily in Iversen's decision to move to industry. The change in emphasis from trying to understand the brain to seeking remedies for its malfunctions also excited her, as she had been working in areas related to mental and neurological illnesses.

The most exciting aspect of Iversen's time in industry sprang from the way that drug discovery brings together scientists from different disciplines. The opportunity to collaborate with chemists on drug design, using computers to view the shapes of drug molecules and to investigate how molecular structure could predict biological activity, was something she had never dreamed of. This co-operation with chemists streamlined the hit-and-miss process of selecting chemicals to be tested as potential drugs, says Iversen.

Tale of two cultures: they operate in completely different ways, says Sue Iverson

Her worries before moving to Merck, Sharp & Dohme focused on the management of research. "I wasn't attracted by going in with a big stick and bossing 20 scientists around, instead of leaving my research students to do brilliant things on their own."

In fact, managing research teams had more to do with distributing carrots than wielding sticks. The most difficult part of the job was to maintain the motivation of team members, "especially those whose contribution wasn't by being brilliant".

Iversen says one advantage of working in the private sector is the ability to motivate with bonuses. She believes performance-related pay is an important tool for maintaining motivation in the long term. But in the short term, or when all the money available for bonuses has been spent, "the only way is to give people an appreciation of how much their work contributes to the project".

Iversen says her time in the private sector was invaluable for her Oxford job. Persuading independent-minded academics to adopt a team approach makes administration much easier. But, she says, "the most important aspect of the head of department's role is in identifying potential high fliers and protecting them from being overburdened by teaching and trivial administrative duties."

'Universities must be the place where "blue-skies" research is done . . . We must jealously guard resources for long-shots, and to help newcomers get started'

Iversen's ability to influence research funding inside her department is minimal. Her staff must compete for outside funds. All she can do is encourage them to write proposals, and try to maintain morale.

She has strong views on how meagre funds should be targeted – she sits on two national science funding committees, the council of the Biotechnology and Biological Sciences Research Council and the Wellcome Trust's Neuroscience Committee.

"Universities must be the place where 'blue-skies' research is done," she says. "We must jealously guard resources for long-shots, and to help newcomers get started."

"The most important thing is to make more use of outcome measures in allocating research funds", she adds.

Her other main point is that funds should be concentrated: "You have to put the money in centres and individuals of excellence." By concentrating funds in this way the UK can hope to end up with a small number of world-class academic research centres. "Modern science will make it increasingly difficult for one man and his dog to operate in isolation," says Iversen.

Bird's eye view of the sun

Clive Cookson on today's high point for Ulysses

Ulysses, the first spacecraft to break free from the plane of our solar system, will reach the climax of a 3bn km voyage today when it flies above the south pole of the Sun.

The $750m (£480m) Ulysses mission is a joint project of the US and European space agencies, dedicated to exploring the heliosphere. This region contains mainly ions (charged atoms) and electrons emanating from the Sun – a bubble blown inside the extremely thin cold gas of interstellar space by the Sun's hot breath, the solar wind. It encompasses the whole solar system, except for the planets and their atmospheres.

Because the planets were formed from a disc of debris around the newborn Sun about 5bn years ago, they all lie within one plane, known as the ecliptic, which is tilted only slightly from the Sun's equatorial plane.

To explore the solar wind and magnetic field, free of the turbulence and other complications caused by the planets, John Simpson of the University of Chicago proposed in 1959 sending a space probe over the Sun's poles. The idea became technically feasible in the 1970s, and in 1977 the European Space Agency agreed to collaborate with Nasa on the Ulysses project.

No rocket is strong enough on its own to send a spacecraft out of the ecliptic, because it has to cancel Earth's motion around the Sun of 30 km/sec and build up speed in a new direction. But Ulysses' designers realised that they could use the gravitational pull of the giant planet Jupiter to propel their car-sized probe into a new plane, like a slingshot (see diagram).

All went well from 1977 until 1980, when the project began an odyssey of setbacks and delays, caused mainly by technical and financial difficulties at Nasa. Ulysses was eventually launched on a Space Shuttle in October 1990, seven and a half years after the original target date.

Once in space, Ulysses performed perfectly. Project scientists took advantage of its swing past Jupiter in February 1992 to make the first detailed survey of the gigantic system of electrical currents, particles and magnetic fields surrounding the planet.

On route to the Sun's south pole, the nine scientific instruments on Ulysses have already made important discoveries about the heliosphere: shock waves in the solar wind; electromagnetic waves with a very long period (more than 10 hours); regular bursts of energetic particles from the Sun; enormous clouds of ionised gas; and unexpected patterns of cosmic radiation from elsewhere in the galaxy. The investigators are still working out the significance of these observations.

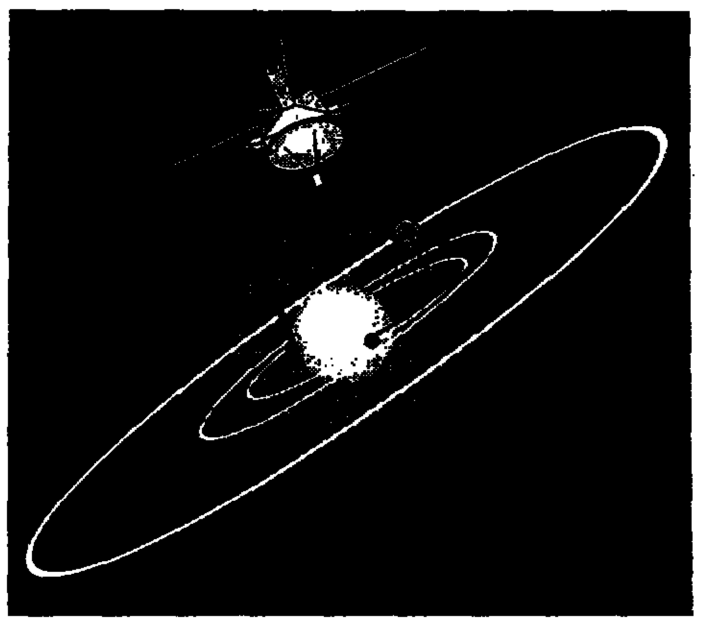
"This is our first ever 'bird's eye view' of the Sun's magnetic poles," says Roger Bonnet, Esa's science director. "This new perspective will cast some light on the origins of the solar wind and is going to improve our models of the solar interior.

"It may also enable us to anticipate better the variations of solar activity and forecast their effect on Earth," he adds. For example, Ulysses may give some clues about the impact of the 11-year sunspot cycle on terrestrial climate.

Although the mission has taken so long to gestate and execute, some old-timers are still involved. Willis Meeks, Nasa's Ulysses project manager, has been working on it for 16 years. And Simpson, the "father of Ulysses", is in charge of the largest of the nine experiments, which looks at the behaviour of cosmic rays in the solar wind. "I have had plenty of opportunities to fly experiments on other missions," he says. "But Ulysses remains unique, as the first and only foreseeable mission to the polar regions of the Sun's heliosphere."

The spacecraft's new polar orbit will carry it over the Sun's north pole next summer. Although current plans call for the mission to end in October 1995, Esa and Nasa are keen to continue observing until the end of 2001. They say the modest extra cost, $50m, would pay large scientific dividends because the current observations coincide with a quiet period on the Sun, whereas 2000-2001 will be a period of maximum solar activity.

Whatever happens next, Ulysses has already paid off in Simpson's eyes. "We don't have to wonder any longer whether the results will justify the effort and reward the long wait," he says. "We already know they do."



BUSINESS AND THE LAW

One victim to help another

More careful control is needed of methods to trace assets missing in alleged fraud, says Robert Hunter

Much has been written about the explosion of fraud in recent years and the dramatic growth of legal methods of locating and recovering the stolen assets. These methods are vital weapons for victims of fraud who need to know, often very quickly, what has become of the money taken from them.

Some of these remedies – for example the "Mareva injunction" by which the defendant's assets are frozen until trial – have worked extremely well and are operated cautiously and fairly. There are, however, grounds for concern over the way others can be misused.

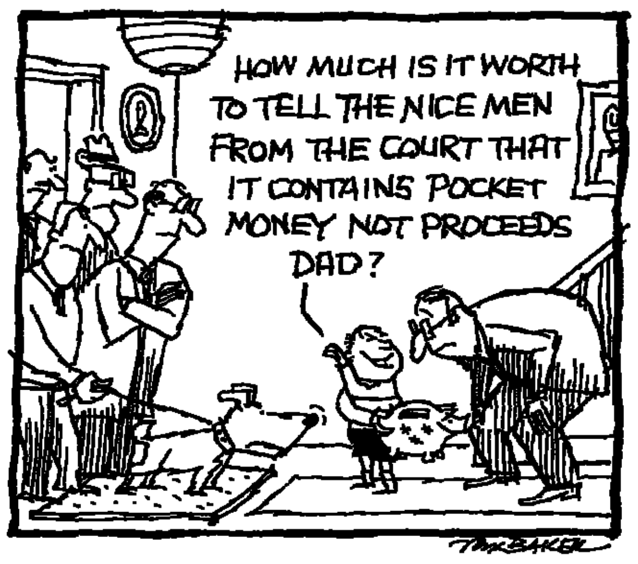
Many of the problems arise from the fact that fraud actions frequently involve reliance upon a "proprietary claim" by the plaintiff. This is a claim by the victim of the fraud that the proceeds of it still belong to him although they have been transferred to third parties.

Proprietary claims are particularly important to plaintiffs who believe that the defendant is likely to become insolvent. If the plaintiff has a proprietary claim over the proceeds of the fraud, he will not have to share them with other creditors if the fraudster becomes bankrupt. Proprietary claims are also important where the defendant has "given the money away" to a spouse, friends or trustees, or passed them on to others who had reason to believe that they were derived from a fraud. Such people, if the plaintiff can identify them and prove that they have received the proceeds of the fraud, can usually be made to repay what they have received.

If the plaintiff is able to persuade the court that he has an "arguable" proprietary claim over the proceeds of an alleged fraud, the court will usually grant orders to help him to find out what has become of them. This is so that he can find out who is holding them and, in appropriate cases, sue those people for their return.

It is common sense that all of these people should be sued at the same time. For this reason, the court will assist the plaintiff to ascertain where the money is and who holds it (in the so-called tracing process) before it requires him to prove at a trial that the money belongs to him.

In order to enable him to find where the money has gone and what it has been used for, the court will grant a plaintiff who may have a good proprietary claim tracing remedies and investigative powers which rival, and in some respects exceed, those available to the police.



As a start to the tracing process the defendant will usually be ordered to serve an affidavit saying what has become of the proceeds of the alleged fraud. Providing this information can be a huge task. The money may have been split up into numerous parts over many years. The ultimate destination of each part will have to be revealed, and any documents relating to the use of the money will have to be collated and disclosed to the plaintiff.

When a court becomes too laisser faire in supervising the tracing process matters can get out of hand

While this exercise is often time-consuming for the defendant, it is usually justified if the only alternative is that the plaintiff would be unable to locate money which might ultimately turn out to be his.

The problem is that the tracing process may not end with the affidavit. If it is not absolutely clear where the proceeds have gone or what they have been used for, this is frequently only the beginning of a series of further applications made, as one judge put it, in "the excitement of the chase".

These might, for example, be designed to obtain further documents, to see lawyers' papers (which are not "privileged" when generated for the purpose of fraud), to appoint a receiver over the proceeds of the fraud to administer "interrogatories" (written questions which must be answered on oath), to cross-examine the defendant on his affidavit and so on. It is possible for lawyers experienced in fraud claims to keep the tracing process running almost indefinitely with applications of this nature.

It is sometimes too tempting to a plaintiff who does not wish to go to the expense (and possibly the risk) of having his action tried to look for an easier route to retrieve the money. The pressure created by these further orders made in the name of the tracing exercise often appear to provide this route.

Sometimes, the defendant may find it difficult to believe the plaintiff can be entitled to inflict such inconvenience and expense upon him without the issues having been somehow prejudged, and so he may become demoralised. In other cases, these orders may give the litigation an additional "nuisance value" in settlement negotiations.

In the remainder, the result (whether achieved through settlement or trial) will remain the same – only the cost and the time taken to achieve it will be considerably greater.

The problem is not with the tracing process itself – for the victim of a fraud it is frequently vital. It is that the courts are sometimes reluctant to require plaintiffs to show the orders they seek are *genuinely* needed to assist them.

When the court becomes too laisser faire in supervising the tracing process matters can get out of hand. Several large fraud cases have involved months of these sorts of wrangles before trial as the parties become entangled in time-consuming applications and counter-applications ostensibly as part of the tracing process, but in reality seeking to inflict pressure or inconvenience on one's opponent or searching for that elusive knock-out blow.

The situation can sometimes resemble Charles Dickens' Jarndyce v Jarndyce, where the parties have become so immersed in litigation that they have all but forgotten its original purpose.

Nobody could sensibly object to the need for powerful remedies to assist victims of fraud. So powerful are the remedies which have been developed that control of them is needed to ensure that they do not give rise to victims of their own.

The purpose of litigation procedures such as the tracing process should be to ensure a quick and effective trial of the issues in dispute – not to afford a means of imposing unnecessary pressure and expense to prevent one.

The author is a partner of Allen & Overy and a member of Allen & Overy's fraud claims unit

PEOPLE

Deaner dives out of MSR chair

Martyn Deaner, 49, the entrepreneur at the centre of one of the North Sea's more spectacular financial disasters, has resigned as chairman of Midland & Scottish Resources, the loss-making company operating the Emerald oilfield off the Scottish coast.

He is the biggest individual shareholder in MSR which was the stock market's top performing share in 1989 when its shares nudged 200p. They are now standing at 2¼p. The company says Deaner "felt his resignation was appropriate in the light of claims for repayment made against him by lenders from whom he has borrowed or guaranteed in support of his investment in Midland & Scottish Resources".

Deaner, a former diver, was appointed chairman in May 1989 shortly after his private company came to the stock market through a reverse takeover of Jebsens Drilling, a loss-making offshore drilling company. His aim was to create a business providing low-cost development systems for small oilfields that might otherwise remain unexploited.

The idea was that MSR would use the money it earned from operating its first project, the Emerald Field, to help pay for its floating production system which could then be re-used as cheap production facilities for other small oilfields. A year after Deaner took over as chairman, MSR launched a £149m rights issue.

However, the Emerald field project ran into financial problems because of production delays, cost over-runs and the fact that there was less oil than first thought. This compounded MSR's problems since it owned a big chunk of the field. Over the past three years MSR has made pre-tax losses of £191m.

Jack Birks, 74, who retired as a managing director of BP in 1982, has taken over as chairman. MSR says that Deaner's resignation will not affect the day-to-day management of the company and his services will continue to be available on a consultancy basis.

Santacroce's pow wow with Aquascutum

George Santacroce, president and chief executive of the US and Canadian operations of Aquascutum, the upmarket UK-based clothing retailer, has left the company after a restructuring of management.

The North American businesses are now being run directly from London by James Pow, managing director of Aquascutum group since last November. Pow becomes group chief executive, the new title reflecting his wider responsibilities.

Pow, formerly with the upmarket men's clothing retailer Hackett, part of Dunhill group, has made it a priority to regain control of the Aquascutum brand name. He felt it was being applied to many unsuitable products around the world.

His first task was to centralise management, bringing the international divisions in the US, Canada, Europe and east Asia under direct control of London.

Many functions were centralised, ending the "spider's web of overlapping functions" that existed when Pow arrived.

The passing of control over the northern American operations to London last month effectively left Santacroce without a role, but his departure was described by the company as amicable.

■ Supermarket group ASDA has appointed Michael Fleming, 33, as marketing director. Fleming is currently marketing director of Somerfield, the supermarket chain formerly known as Gateway.

Fleming fills the gap left by former marketing director Allan Leighton's move last January to become Asda's retail director, overseeing store operations and the programme of store refurbishments or "renewals".

He will be building on the work Leighton has done to reposition the UK's fourth largest grocer as a retailer providing the weekly shopping needs of "ordinary working people and their families". This has involved lowering prices, strengthening the Asda brand and reintroducing the "Asda Price" slogan and advertising campaign.

A graduate of Oxford and Insead, Fleming has previously worked for Storehouse, the UK clothing retailer, and US investment bank Morgan Stanley.

■ Christopher Mason, formerly director of systems development at B&Q, has been appointed director of systems at Somerfield Holdings.

■ Sue Jones has been promoted to financial director for J. Walter Thompson Europe, part of WPP.

■ Andrew Regan has been appointed finance director designate of GIBBS MEW filling a position which has been unoccupied for two years. It is intended that he will join the board within a year. Paul Davies, md of Centric Pub, recently acquired by Gibbs Mew, has joined the board.

Walton leaves for Goldman

Goldman Sachs, one of the more aggressive US investment banks in London, has signalled its intention to get more heavily involved in the UK equity market by poaching Paul Walton, 35, James Capel's chief UK investment strategist.

Walton, who joined Capel in 1990 following stints at Warburg Securities and Smith New Court, was ranked fourth in his sector in the latest Extel survey of analysts. His research on "A profits pathology" was singled out as the best piece of research.

Goldman Sachs has been operating in the UK equity market for over seven years and has recently been expanding its coverage of specific sectors by hiring top-rated analysts such as Neil Blackley, Capel's former media analyst. However, until now it has not had a general UK equity strategist to pull together the recommendations of its various sector specialists.

■ Goldman Sachs has appointed Andrew Bevan, 37, as its senior international bond economist. Bevan, who joins from Bear Stearns, fills the slot left vacant earlier this year when Jeremy Hale followed David Morrison to Tiger Fund Management, a US-based hedge fund.

■ Michel Plantevin, formerly md/senior partner of the Paris office of Bain & Co, has been appointed an executive director and head of Goldman Sach's strategic advisory group in Europe.

Non-executive directors

Sir Paul Girolami (above), who steps down as chairman of Glaxo in a couple of months' time, has picked up another retirement job. He is joining the board of Saatchi & Saatchi as a non-executive director on October 3. He joined the board of Forte last October

Sir Paul, 68, a chartered accountant who joined Glaxo in 1965, is filling a vacancy on the board of the international advertising group left by the planned retirement at the end of the month of Stuart Cameron, a former director of American Brands. Cameron has turned 70 and believes it is now appropriate to step down from the board although he was re-elected for a further term at Saatchi's annual meeting in June.

Cameron's job as chairman of Saatchi's nominations committee will be taken by Sir Peter Walters, the former chairman of BP and Midland Bank. However, there is still no word yet on Sir Paul's replacement as chairman of Glaxo, Britain's fifth biggest company.

■ Robert Colvill, finance director of Marks & Spencer, at WITAN INVESTMENT COMPANY.
■ Ronnie Hampel, deputy chairman and ceo of ICI, at ALCOA.
■ Roger Young, chief executive of Scottish Hydro-Electric, as an ordinary director at BANK OF SCOTLAND.
■ Patrice Bruneau, recently md of BSN's brewery division, at IMC.
■ Henry Lewis, co-founder of Action Computer Supplies, at STANDARD PLATFORMS.
■ Howard Sims, chief executive of Cavaghan & Gray, at DALEPAK FOODS.
■ Jean-Pierre Le Clef at ABTRUST NEW THAI INVESTMENT TRUST.

ARTS

Renaissance reworked

The artistic quality of paintings rather than the subject is what really matters, says William Packer

The present public debate on the merits of figurative as opposed to abstract painting is based on an unsustainable prejudice: that figurative is inherently good; and that abstract is too easy – a snare and a delusion.

Yet there is clearly no objection to abstraction of itself – or where would music be, or architecture, or the great decorative traditions of Islam and the east? And what about the strange acknowledged power of the single, simple stone standing in the middle of the field, or the middle of Whitehall for that matter?

But the general feeling is that because the visual arts, and painting especially, possess the facility of direct representation, then that facility must be exercised, come what may. Yet it is never the mere reference that makes the art, or every Crucifixion or Annunciation would be as good as any other. The distinctions to be drawn between them are as abstract, formal and intuitively obvious as those between any Mozart and Salieri.

It is only the quality of what the artist does that matters, of whatever kind, and in London we have work pass through the galleries, often coincidentally, to make the very point. Paul Storey, at 37, is still quite young, but the scope of his work, as much in its scale and technical application as in its subject-matter, bespeaks an ageless ambition. Certainly he is rare in attempting, as he has done consistently since his student days, the full-dress subjects of the Renaissance tradition, both sacred and profane – the Virgin Mary or The Baptism of Christ on the one hand, Agamemnon or The Rape of Helen on the other.

He has studied deeply the art of 15th century Italy, of Fra Angelico and Piero della Francesca in particular, to which in costume and architecture his reference is insistent. Yet the cocktail is more complex than that, for, to add to the Italian serene, there is more than a pinch of the northern grotesque and fantastical. And while again he stays with the 15th century, and with Bosch, he also seems closer to our own times in this respect, to Victorian fairy painters such as Richard Dadd, and to the great Edwardian illustrator, Arthur Rackham.

But it is this grotesque aspect, always markedly characteristic of Storey's work – and a most effective device besides by which to draw attention to a young artist – which now seems increasingly forced and artificial. When mannerism becomes affectation, it ceases to serve, and here too often we have an histrionic distortion that attracts attention only to itself. The encouraging thing is that Storey now makes the point himself in so many of the smaller, less overtly ambitious works, the small, straight-forward heads especially, which are by far the best things shown. This is an accomplished show which makes us look forward positively to the next.

Ellsworth Kelly's new paintings could hardly afford a greater contrast. Now over 70, Kelly is an American painter and sculptor who came to prominence in the 1950s and early '60s upon the wave of minimalist reaction to the tuff-boot extravagance of abstract expressionism. And if anyone is to give minimalism a good name, it is he. Yet the bare description of his work must give any sceptic ammunition – a roomful of variations upon the simple sector, either variously imposed upon a square white canvas as a blue, green, red or yellow figure, or presented simply as a discrete red or white panel: a pure white square canvas set askew upon a black, or a green upon a blue: a large yellow equilateral triangle set on its side with a smaller black right-angled triangle: an orange right-angled triangle and a grey chord set together upon the mutual vertical.

And of course we all could do as well, given the same refinement of sensibility and exquisite nicety of judgment. We worry too much about the artist and the apparent simplicity of his work, and tend to forget that the work, on its own terms, actually works. Kelly gives us now the subtlest chromatic dissonance, now the gentlest of harmonies: the composition now formal and monumental, now light and active, the contours sprung taut as a bow. And it all acts upon the eye and the sympathetic imagination like a drop of pure water falling into a clear pool.

Two floors above the Kelly, at Annely Juda, we have a last chance to see *Line + Movement*, a small but magisterial show of work from the European abstract constructivist tradition from which Kelly himself springs – indeed it includes a work of his of 1969. It is a selection of very high quality, from Fritz Glarner and Naum Gabo to Max Bill and Kenneth Martin. Best of all it has a group of paintings from 1927 by Mondrian in his prime. Arrangements of rectangular black lines on an off-white ground, selectively filled in with blue and red and yellow: nothing more: and they sing like Lorenzo's angels. You have until Saturday to hear them.

Paul Storey – New Paintings: Jason & Rhodes, 4 New Burlington Place W1, until October 15. Ellsworth Kelly - New Paintings: Anthony d'Offay Gallery, 21, 23 & 24 Dering Street W1, until October 15. Line + Movement: Annely Juda Fine Art, 23 Dering Street W1, until September 17.

More than a pinch of the northern grotesque: 'Head (Green Hat and Trumpets)' by Paul Storey

Music in London

Maazel and the Pittsburgh

The most recent occasion that the Pittsburgh Symphony Orchestra attracted attention in Britain was when a BBC documentary last year revealed the huge sums paid out to secure the services of its music director, Lorin Maazel. The good people of Pittsburgh put a high price on civic pride.

Although it is not one of the inner circle of great American orchestras, the Pittsburgh Symphony is good enough to hold a place on the international stage. Is it obviously American from the way it plays? Difficult to say: the brass is dominant and there is a punchiness about the playing which is certainly transatlantic, but those may just be dominating characteristics of its music director.

Whatever his drawbacks, Maazel gets spick-and-span ensemble out of an orchestra. The two concerts by the Pittsburgh Symphony in the last week of the Proms followed on a series by some of the world's great orchestras and although it does not compare with the rich and cultivated sounds made by Berlin and Dresden respectively, it always knew what it was doing. The playing was decisive and remarkably clear.

Maazel is less a conductor than a musical surgeon. In the first concert Rakhmaninov's Third Symphony found him scalpel in hand. He analysed, clarified and dissected the score, slowly laying out its bare bones before him. The operation was performed with impressive precision, but only because the heart was dead. This symphony has rarely seemed so cold; the slow movement had no lyrical flow, the finale was never joyous.

More pleasure was afforded in this first programme from hearing the wealth of detail in the 20th-century music after the interval. Maazel's ear uncovered many precise timbres and rhythms in Ravel's *Rapsodie espagnole* and Julian Rachlin was no less proficient a soloist, with a big tone for one so young, in Prokofiev's First Violin Concerto.

The second concert was all Beethoven: the Eighth and Ninth Symphonies, the latter a prerequisite for the Proms' penultimate night. Typically, Maazel was at his best where the emotions get least involved, as in the metronome-like tick-tock of the Eighth's second movement or the Ninth's unrelenting scherzo. Outer movements were delivered with rigorous accents, which became pedantic when Maazel decided to underline crucial turning-points in the structure. In sum, the Eighth worked, thanks to its energy and brilliance; the Ninth predictably offered no sense of the spiritual and fell short.

The finale of the Ninth is a great Prom rabble-rouser, especially when it is sung by a choir as large and well-rehearsed as the Philharmonia Chorus. Gregg Baker led the "Ode to Joy" superbly, the best of a big-voiced quartet, including Nina Rautio, Linda Finnie and John Horton Murray.

Richard Fairman

Fine singers at the Wigmore

The Wigmore Hall's International Festival of Song is bringing to London this autumn some of the most exciting young voices around. Last week we heard Dawn Upshaw, Olaf Bär and Barbara Bonney – all fine singers who did not, however, fulfil every expectation.

Bonney's recital on Thursday seemed designed to show off her beautiful tone – at once light and lustrous – but it also revealed the limitations of her instrument. A little variety in the mostly slow, all-Lieder programme might have helped. Her opening group, Rückert settings by both Robert and Clara Schumann, afforded scope for ravishing singing: Robert's "Mein schöner Stern" (a wedding present to his wife) was infused with radiance, and Bonney also caught the lilting beauty of Clara's "Liebst du um Schönheit" – so different from Mahler's version.

The American soprano (accompanied by Geoffrey Parsons with dull professionalism) found a freshness in the Schubert songs (like "Die Forelle") so familiar that they are often overlooked, but some of her Schubert was perhaps too slow and self-conscious. Bonney appeared temperamentally better suited to the Mahler *Knaben Wunderhorn* selection we heard after interval, even though she did not command enough variety of colour to sustain interest in the long "Wo die schönen Trompeten blasen". Berg's *Seven Early Songs* rounded off the evening effectively, drawing together as they do influences of 19th-century Lieder and providing Bonney with haunting lines to float very appealingly.

It was similarly difficult, in Tuesday's recital devoted to the 46 songs of Wolf's *Italian Songbook*, always to know whether to blame performer or composer for the limited range of expression in Dawn Upshaw's singing. Wolf assigned most of the cycle's lighter songs to the soprano, leaving the more serious ones to the male voice. Upshaw's tone is bright and fresh, and well suited to the innocence of such songs as "Auch kleine Dinge", but the humorous and vengeful cameos were a little shallow.

She was overshadowed by the interpretative powers of her partner, Olaf Bär, who found the dark drama of his songs in performances that sounded almost sculpted. The baritone was totally at ease and it helps to have a native German singing these words. He has reserves of operatic power, but was most impressive in the stillness of "Sterb ich, so hüllt" and the serenity of "*Benedeit die sel'ge Mutter*". Helmut Deutsch was a colourful pianist who brought each one of the miniatures to life with insightful musicianship.

John Allison

Lorraine Ashbourne Alastair Muir

Theatre/**Alastair Macaulay**

More guidance for 'Babies'

New plays by young and unknown authors seldom have the success enjoyed by Jonathan Harvey's *Beautiful Thing*, which told the love story of two teenage boys in a South East London apartment block. New last year at the Bush, it was taken up by the West Yorkshire Playhouse, and enjoyed a successful season this spring at the Donmar Warehouse. Most of those who saw it loved it, I think, and most of us who loved it found it unusually touching, funny, and realistic. It had its faults – too sentimental an ending – but it was the kind of play we wanted our friends to see and enjoy too.

Now the Royal Court is giving Harvey's latest play *Babies* – which was originally developed and presented at the Royal National Theatre Studio. It, too, is funny and touching and realistic; it, too, is set in South East London and concerns the sexual problems of teenagers and the adults in their lives; and this time the sentimentality is less marked. But *Babies* is a mess. Several of its scenes and characters and lines have you roaring with laughter – and yet the play falls apart while you are watching it.

Some of the blame here must go not to Harvey but to his director, Polly Teale. *Beautiful Thing* has the merit of an exceptionally truthful and realistic staging by Hettie Macdonald; the South East London created at the Royal Court by Teale is rather obviously choreographed and safe and audience-conscious. As you walk in, the kids are up there onstage, as if in the school playground; and though it is just darling watching them – what age are all these young performers? – nothing quite rings true.

And some of the blame must go to the Royal Court and/or the National Theatre Studio. I have rarely been so aware of a play's need of editorial guidance while I was watching it as here: especially in its second half. Joe, a 24-year-old teacher, is gay and has problems with his boyfriend Woody, who has problems with drugs. He is, however, a good teacher, and goes so far as to attend 14-year-old Tammy's birthday party. Not only does Tammy's 32-year-old widowed mother Viv set her cap at him, so does Viv's gay brother Kenny. Guess which one is disappointed. All of this has plenty of potential.

Then, however, Kenny starts to rape Joe; and then a drag queen arrives, dressed as *the* Queen, as the surprise guest for Tammy's birthday; and then Viv gets into a massive fight with a neighbour; amid which Joe goes, only to find that Woody has stayed *off drugs* tonight, and so the two of them are happy and lovey-dovey. The rape scene is the most distasteful here, less because it is graphic than because it is set up as mere farce frolic. But the drag queen scene is just as awkward; like the rape, it sets up far more questions than Harvey seems to realise. After these two crises, Joe's happy-again homecoming is so safe as to be gruesomely escapist.

These problems tend to wipe away the memories of the really uproarious comedy that Harvey does create in some scenes. The gay line "You were so far back in the closet you were in f***ing Narnia" deserves to be a classic. The best touch in the play occurs, albeit too late, in the final scene, when David, a 14-year-old, is bullied for having wanted to have sex with Tammy. The ironies – he didn't, and so what anyway? especially after everything else we've seen – are splendid. And, as David, Ricci Harnett gives the most touching and convincing performance in the cast. Elsewhere, however, charm and realism are marred by audience-consciousness.

At the Royal Court Theatre, SW1

INTERNATIONAL

ARTS GUIDE

■ AMSTERDAM

Concertgebouw Tonight: baroque violinist Ryo Terakado plays Bach. Tomorrow, Sat, Sun afternoon: Vassili Sinaiski conducts the Netherlands Philharmonic Orchestra in Rakhmaninov's Third Piano Concerto (Shura Cherkassky) and Prokofiev's Fifth Symphony (repeated next Tues in Utrecht). Sat afternoon: Edo de Waart conducts Mahler's Eighth Symphony. Sun morning: Valery Gergiev conducts Rotterdam Philharmonic Orchestra in Mahler's Sixth Symphony. Next Mon: Gergiev conducts Kirov Opera ensemble in concert performance of Khovanshchina. Sep 27: Jessye Norman (24-hour information service 020-675 4411 ticket reservations 020-671 8345)
Muziektheater Tonight, Fri, next Mon (continues till Sep 30): Hartmut Haenchen conducts David Pountney's production of Lady Macbeth of Mtsensk, with Eva-Maria Bundschuh and Willard White. Tomorrow, Thurs, Sat, Sun afternoon (continues till Sep 21): Dutch National Ballet in choreographies by Balanchine, Fernandez and Van Dantzig (020-625 5455)

■ ANTWERP

deSingel Tonight: Carlo Rizzi conducts the Orchestra of the Monnaie in symphonies by Schubert and Mahler. Tomorrow: Philippe Herreweghe conducts Collegium Vocale in sacred music by Schütz. Tonight and tomorrow (Rode Zaal): Michèle Anne De Mey and Company in De Mey's choreography of Pulcinella. Fri: Anne Teresa De Keersmaeker's dance group Rosas presents Achterland (03-248 3800)
de Vlaamse Opera The Flanders Opera season opens on Sep 30 with a new production of Don Giovanni (03-233 6685)

■ BASLE

Stadttheater The first new production of the season is Spontini's La Vestale, opening on Fri (repeated Sep 19, 25). Robert Duerr conducts a staging by Christine Mielitz, with a cast headed by Francesca Pedaci/Suzanne Murphy (061-295 1133)

■ BRUSSELS

Palais des Beaux Arts Tonight (Eglise des Minimes): Philippe Herreweghe conducts Collegium Vocale in a Schütz programme. Thurs: Yuri Simonov conducts Belgian National Orchestra in works by Borodin and Dvorak, with cello soloist Steven Isserlis. Fri: Pierre Bartholomée conducts Liège Philharmonic Orchestra in Messiaen's Eclairs sur l'Au-Delà. Sep 22: Czech Philharmonic. Sep 24: Jessye Norman. Oct 4: Murray Perahia (02-507 8200)

■ CHICAGO

MUSIC
Lyric Opera The 1994-95 season opens on Sat with Boris Godunov, in Stein Winge's Geneva production conducted by Bruno Bartoletti. The cast is headed by Samuel Ramey (repeated Sept 20, 23, 27; Oct 1, 5, 8, 10, 14, with Vladimir Matorin singing the title role in some performances). The season also includes The Rake's Progress, Fedora, Il barbiere di Siviglia, Capriccio, Candide, Aida and Siegfried (312-332 2244)
Chicago Symphony The season at Orchestra Hall opens on Sat, the same night as the Lyric Opera. Daniel Barenboim conducts the opening choral programme of Bruckner and Beethoven (Sep 17, 20 and 27) and three further programmes during the coming month. Itzhak Perlman is violin soloist on Sep 22, 23 and 24, and gives a recital with Barenboim on Sep 26 (312-435 6666)
THEATRE
● **Angels in America:** Tony Kushner's two-part epic has just opened at Chicago's Royal George Theatre for an extended run, in a national touring production directed by Michael Mayer and featuring Jonathan Hadary as Roy Cohn (312-988 9000)
● **A Clockwork Orange:** Steppenwolf Theatre gives the American premiere of the stage version of Anthony Burgess' classic novel. Previews begin tomorrow, opens Sep 27 (312-335 1650)

■ GENEVA

The opening production of the new season at the Grand Théâtre is Idomeneo, conducted by Armin Jordan and staged by Christopher Alden, with a cast headed by Johan Botha, Paul Groves and Solveig Kringelborn. The next performances are Thurs and Sat, repeated Sep 20, 23, 26 and 28 (022-311 2311)

■ THE HAGUE

Dr Anton Philipszaal Fri, Sat: Yevgeny Svetlanov conducts Hague Philharmonic Orchestra in works by Wagner, Svetlanov and Tchaikovsky. Mon: Schoenberg Ensemble plays arrangements of music by Skryabin (070-360 9810)

■ LINZ

The annual Bruckner Festival opened on Sunday and continues till Oct 2. This week's programme includes concerts on Fri and Sat by the Philharmonia Orchestra under Giuseppe Sinopoli, with soprano Edita Gruberova. Other highlights: the Orchestre de Paris plays Bruckner's Ninth Symphony on Sep 23, Marek Janowski conducts a concert performance of Wagner's Lohengrin on Sep 25, Christian Zacharias gives a piano recital on Sep 27 and the London Philharmonic gives concerts on Oct 1 and 2 (0732-775230)

■ ROTTERDAM

De Doelen Tonight: Orpheus Quartet plays string quartets by Haydn, Bartok and Beethoven. Fri: Valery Gergiev conducts Rotterdam Philharmonic Orchestra in Mahler's Sixth Symphony. Sun: Caribbean Carnival, with steel bands, dancers and others (010-217 1717)

■ UTRECHT

Vredenburg Sat: Bernhard Klee conducts Radio Chamber Orchestra in works by Mozart, Richter and Schubert. Sun: Valery Gergiev conducts Kirov Opera ensemble in concert performance of Berlioz's La Damnation de Faust (030-314544)

■ VIENNA

● The Vienna State Opera Ballet presents a new production at the Volksoper on Mon of a ballet based on Lehar's Die lustige Witwe. The State Opera will remain closed for technical alterations till Dec 14, but the ensemble will perform Cosi fan tutte under Riccardo Muti at Theater an der Wien from Oct 29 to Nov 13 (51444 2959/51444 2969/513 1513)
● The main orchestral programme at the Musikverein resumes on Sep 24 and 25 when the Orchestre de Paris gives concerts conducted by Semyon Bychkov (505 8190)

■ WASHINGTON

MUSIC
● Andrew Litton conducts the National Symphony Orchestra and Oratorio Society of Washington at Kennedy Center Concert Hall on Thurs, Fri and Sat. The programme consists of a suite from Gershwin's Porgy and Bess, with a cast headed by Cynthia Haymon (202-467 4600)
● David Zinman conducts the Baltimore Symphony Orchestra on Fri and Sat at Baltimore's Joseph Meyerhoff Symphony Hall. Kyung-Wha Chung is soloist in Beethoven's Violin Concerto (410-783 8000)
THEATRE
● **Flyin' West:** This play about courage and frontier justice in late 19th-century America, produced by New Jersey's acclaimed Crossroads Theatre, runs till Oct 9 at the Eisenhower Theater (202-467 4600)
● **Goodnight Desdemona:** Ann-Marie MacDonald's spoof on Shakespeare runs till Oct 16 at Woolly Mammoth Theater (202-393 3939)
● **A Perfect Ganesh:** Terrence McNally's play, about two New England matrons on a personal quest as they journey through India, runs till Oct 30 at the Kreeger (202-488 3300)
● **The Rise and Fall of Little Voice:** Jim Cartwright's play, about a young girl with the ability to mimic pop female vocalists, runs till Oct 9 at Studio Theater (202-332 3300)

■ ZURICH

Opernhaus Tonight: Die Zauberflöte. Tomorrow, Fri: Rusalka. Thurs: Tosca. Sat: Adam Fischer conducts the first night of Cesare Lievi's new production of La Cenerentola, with a cast headed by Cecilia Bartoli, Roberto Sacca and Carlos Chausson (01-262 0909)
Tonhalle Thurs, Fri: George Cleve conducts Tonhalle Orchestra in Poulenc's Double Piano Concerto (the Labeques) and John McLaughlin's Guitar Concerto, with composer as soloist (01-261 1600)

ARTS GUIDE

Monday: Berlin, New York and Paris.
Tuesday: Austria, Belgium, Netherlands, Switzerland, Chicago, Washington.
Wednesday: France, Germany, Scandinavia.
Thursday: Italy, Spain, Athens, London, Prague.
Friday: Exhibitions Guide.

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NBC/Super Channel: FT Business Today 1330; FT Business Tonight 1730, 2230

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FRIDAY
NBC/Super Channel: FT Reports 1230
Sky News: FT Reports 0230, 2030

SUNDAY
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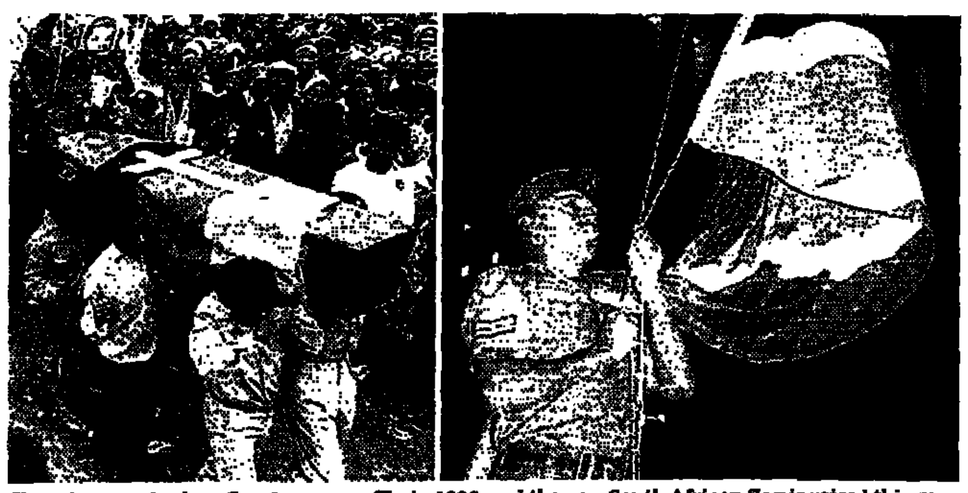

Changing standards: a flag drapes a coffin in 1986, and the new South African flag is raised this year

A black and white morality tale

Patti Waldmeir reflects on her time in S Africa

Like nowhere else that I have ever lived, South Africa has seared my soul.

The grinding agony and the transcendent joys of the past five years, during which I have been Financial Times correspondent in Johannesburg, have touched me in a way that (I suspect) no country will ever do again.

I am not a particularly emotional person – my friends say rather a cynic and a pessimist – but South Africa has got under my skin. It is a land of huge, empty beauty, whose people have taught me confusing lessons in the nature of the human spirit: immensely generous and chillingly brutal by turns, they are extraordinary. Apartheid brought out the best and worst in them: it left little room for the mediocre.

They have lived one of the most dramatic moments in the history of the human spirit, and I have lived it with them. The liberation of blacks and emancipation of whites from the twin burdens of oppression and guilt must rank as among man's greatest positive achievements this century. I can hardly believe I was lucky enough to watch it happen.

From the first, I was fascinated by the political theatre which is South Africa; for nearly a decade, I have made it my life. In 1985, I arrived for my first visit bearing the certain knowledge of good and evil which was the common baggage of most foreigners: the Afrikaner was demon and the African saint; there were no mixed tones in the black and white morality of the place.

That vision did not survive my first week. Though the police behaved predictably, shooting at mourners at a township funeral, the same funeral generated an incident which disturbed the simple plot: mourners used the "necklace" – the South African method of death by means of straitjacketing the body with a burning tyre – to attempt the murder of a man standing near me. Archbishop Desmond Tutu intervened, and the episode ended without bloodshed; still, I found it hard to grasp the primordial hatred that could spur such a deed. I still do.

I visited South Africa several times in 1985-86, years of township revolt and state repression which left me certain the place would never escape from its vortex of madness. They were years when I wondered about my own sanity, too: I remember watching from a distant bridge as vigilantes hacked each other to death in the KTC squatter camp near Cape Town; afterwards, I returned to a luxury hotel for a hamburger and a beer. As though nothing – or nothing worth noting – had happened.

Over the years, I am ashamed to say, this incongruity ceased to bother me: I would return from some township conflict, take off my bullet-proof vest, relax in my fragrant garden with a chilled glass of Cape wine, and experience nothing other than relief. Or worse yet, I would simply stay in the garden and leave the deathwatch to others.

South Africa was designed for that: laid out physically to ensure that the worst black misery was invisible to whites who did not detour to see it; socially structured to permit white masters and black servants to live within metres of one another, yet never cross the gulf of privilege between them; politically constructed so that, with few exceptions, only blacks feared police brutality, the necklace or political murder. Whites had only crime to worry about.

But always, the generosity of spirit of many, many Africans, and not a few Afrikaners and other South Africans, defied those divisions. In the time that I have known it, this most divided of societies has made great strides to heal itself.

No one – certainly not I – would have believed it possible: reason cannot explain it, nor cynicism grasp it.

Today the South African flag, which used to fly only behind barbed wire and sandbags at embattled police stations, flutters in the garden of my neighbour's house in a white suburb. The local radio station provides lessons to its listeners in how to sing the two sectarian hymns chosen to unite this land as a national anthem: *Nkosi sikelel i'Afrika* (God bless Africa), the liberation anthem, and *Die Stem*, the theme song of apartheid.

Blacks practise singing *Die Stem* and whites stumble along with the unfamiliar African syllables of *Nkosi sikelel i'Afrika*. And cynic that I am, my eyes fill with tears.

This is not to suggest that South Africa has overnight attained national nirvana. Earlier this month, three men were "necklaced" in Duduza, the same township where Bishop Tutu prevented the necklacing in 1985. The killings were not political – the three were suspected car hijackers – but they were nonetheless chilling for that. Like many things, they are a hangover from the old South Africa.

Whites still grumble about blacks and *vice versa*; many whites refuse to sing *Nkosi sikelel i'Afrika* and the black labour federation, Cosatu, sang only the black national anthem at its recent congress.

But in so many other ways, the racial divide *is* being bridged. Most Afrikaners have somehow found ways to adjust to a fate they always believed would be worse than death: rule by the black man.

And at least in urban areas, where white and black often share the colour-blind camaraderie of the workplace, race relations have undoubtedly improved. So far, blacks have been magnanimous in victory and whites gracious in defeat. That may change when the real struggle begins – the battle over the redistribution of wealth – but it is a good start.

The credit for that goes to all the South Africans who have eschewed the bitterness which one might have thought inevitable under apartheid.

But overwhelmingly, it goes to Nelson Mandela, who has charmed even his most committed enemies since the day in May when he stood on the steps of parliament in Cape Town, and placed his hand over his heart in respect for the singing of *Die Stem*, anthem of his oppression.

I wore sunglasses that day to hide my tears from my more professional colleagues, as Mandela gave this extraordinary public signal of forgiveness, while white sharpshooters protected him from roof tops. I have needed my sunglasses often as this strange and wonderful tale of collective liberation has drawn to its conclusion. South Africa will never be the same again – but then, neither will I.

The author is nearing the end of her assignment as FT South Africa correspondent

Joe Rogaly

It's those men again

The half-point rise in British interest rates may not help the government, but it could be a good career move for Mr Kenneth Clarke. The chancellor is not one to let such an opportunity pass him by. He popped up everywhere yesterday, presenting himself as a prudent, decisive and visionary national treasurer of steely resolve and delicate touch. We are invited to believe that he knows which monetary string to fine-tune, and when. It appears that he has found the magic formula that has hitherto eluded economists in the known universe. Yes, the self-styled canny Ken has discovered how to drive an economy to the very borders of Utopia without mishap.

Neither you nor I nor Mr Clarke can be certain that this is so. Between you and me, I have my doubts. It is not even clear whether the rise in base rate was decided upon by the chancellor in happy concurrence with the governor of the Bank of England. Quite possibly, Mr Eddie George was quietly insistent. Thanks to Mr Clarke, the minutes of the meetings between the two are published. This gives the governor the powerful weapon of disclosure should the chancellor take a view different from his own. Either way, it would have been in character for Mr Clarke to conclude that, if unpalatable medicine is called for, it had better be administered at once.

Thus obliged, the chancellor has put his name to an increase in rates that many will regard as sensible. He has also intimated, in his customary manner, that there will be no tax cuts before the November 1995 Budget. In short, he has come across as competent, and, better yet, a beacon of stability. This should be to his credit. In the kingdom of the maladroit, he who is capable earns respect and admiration. In due course this will benefit the chancellor, in spite of much wringing of Tory hands over the higher cost of mortgages.

Did I say maladroit? Such a *kind* epithet. This is not a sign of commentator's softness; it is just that the ability of this government to pound its own face with custard pies of its own making is beyond parody. We need merely note the weekend performances by the prime minister and the chairman of the Conservative party. The latter, a Mr Jeremy Hanley, took only 24 hours to make a nonsense of the former's effort to convince us that the Conservatives are the party of law and order. The prime minister needed to do this because the home secretary, who should, hasn't. So on Friday Mr Major spoke of countering Britain's "yob culture". That was unwise, since it invited, and got, the riposte that the government has been in office for 15 years and we are now up to our eyes in yobs. Could anyone make things worse? Yes. On Sunday the party chairman depicted a clash of yobs at a prize-fight as a spot of exuberance. Later he apologised and said he doubted his own suitability for the job.

The government is more spectacularly unpopular than it was in the spring. Mr Major, poor chap, runs and runs and stays in the same place

Mr Hanley is famous for being the child of entertainers. It was curious of Mr Major to appoint him. Perhaps he was thinking, in this 50th anniversary year, of the wartime comedian, Tommy Handley, he whose show *Itma* ("It's That Man Again") gave us Mrs Mopp with "Can I do yer now, sir?" and Mona Lott with "It's being so cheerful that keeps me going". Yesterday Mr Hanley was twittering chirpy nothings about the forthcoming party conference while Mr Clarke was raising interest rates. If the chairman of the Conservatives continues the slapstick he has started, we must all smile sweetly and say: "It's That Man Again."

None of this would matter were it not for the government's desperate need to show that it is in control of its own conduct, that it is in a position to take two or three steps at a time without falling flat. Before the summer break I wondered aloud whether we could detect signs that Mr Major was getting better at his job. Not quite yet perhaps, but if he was blessed with a good – lucky – summer, his party would discover that he had re-established "grip", leadership, an ability to convey the sense that he and his ministers were in charge and knew what they were doing. Alas for them, the Conservatives have not had a good July and August. The government has come out of it more spectacularly unpopular than it was in the spring. The prime minister, poor chap, runs and runs and stays in the same place.

Quite possibly one cause is that other man again. As he indicates on the page opposite, Mr Tony Blair is claiming for the Labour party the image of financial rectitude that has fallen from the Conservatives' grasp. If the chancellor and the governor perceive a need for an increase in rates, he suggests, they must be right. Of course the new Labour leader also argues that a government under his prime ministership would not have started from here. It would have invested in infrastructure, education and training and thus be running an economy that could sustain low inflation at a higher rate of growth than achieved under the Conservatives.

This is the argument put over the past year or so by the shadow chancellor. Mr Gordon Brown was away yesterday. Mr Blair's presentation of Mr Brown's thesis is of greater significance than is accounted for by a clash of diaries. We can take or leave the bit about Labour having the better formula for growth. The key point is Mr Blair's carefully implied commitment to low inflation. This may be interpreted as yet another tug of the party towards the centre of British politics. It is all of a piece with his tilt away from a pro-Catholic stance in Northern Ireland, his refusal to support the railway signallers' strike, and his outspoken statement that a married heterosexual couple is the best unit for the upbringing of children.

Britain's silent majority, conservative at heart, will doubtless be comforted by such sentiments. Mr Major seeks to project a similar message. He has shown courage and consistency in dealing with Northern Ireland, but for the rest he is hamstrung. Since it has been there so long, the government gets the blame for everything that goes wrong. It is so out of favour that it cannot make political capital out of a prolonged and irritating railway strike. This casts a shadow over the chancellor's expectations of promotion. For while Mr Clarke may one day win the leadership of the Conservative party, conservatives are looking to Labour for their salvation.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

Competition may not benefit all

From Ms Ruth Evans.

Sir, Your report, "Gas industry and users step up call for legislation" (September 8), implies that all consumer groups want the government to introduce competition in the domestic gas market at the earliest opportunity. This is not the case.

The National Consumer Council believes much more information needs to be made available before domestic consumers can be confident that the changes will be to their benefit.

The ordinary gas user is caught between British Gas warning of steep price rises and independent companies promising cuts. How can consumers make up their minds when there is no detailed information on the new industries' obligations and no independent cost-benefit analysis?

While we believe competition benefits consumers when it increases choice, we are concerned that any real choice in a domestic gas market might only be available to more affluent consumers living in particular geographical areas. It certainly seems unlikely that companies will fight over the custom of low-income households using pre-payment meters.

Regulation of gas supply since privatisation has led to lower bills for consumers in real terms. We do not want to see a successful system dismantled before the advantages of an open market for all consumers have been established.

Ruth Evans,
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No measure of competitiveness

From Mr Gunnar Münt.

Sir, I enjoyed Frances Williams's critical remarks on the Institute for Management Development competitiveness report (World Trade News: "Lean and mean, but is it fair?", September 7). Judging nations on the basis of a bunch of economic, political and cultural indicators as if they are competing against each other on these terms is nonsense.

As Paul Krugman convincingly argued in a recent article (*Competitiveness: a Dangerous Obsession*, Foreign Affairs, March/April 1994) on the obsession of national politics with competitiveness, wealth creation of countries or companies cannot solely be matched with success on world markets or competition for foreign direct investment (FDI). Although it is obvious that national income depends on a variety of different factors, single national characteristics should not be judged as if nations are competing on these characteristics. Taken together they shape the economic structure of nations – but is there a general formula behind their respective impact?

Even if we focus on economic indicators, it is by no means clear that world trade or FDI rank first in determining national wealth in each country. Think, for example, of the US, Japan and France, which have reached high levels of per capita income with low export quotas – instead of highly obvious differences in their respective trade balances.

If, however, the analysis is limited to world market success, one should focus on the structural failures of foreign trade – that is, on single products or product groups. This micro-economic approach reveals much about existing strengths and weaknesses of different countries – the more so where trade among high-tech countries is concerned. As a matter of fact, sectoral productivity and product-based technological leads are more valuable in offering an explanation of foreign trade structures and the impact on national income than the IMD indicator, which neither serves national governments in shaping economic policy nor the real-world businessman.

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Rate rise a low-risk move

From Dr Stephen Popham.

Sir, Samuel Brittan in his article of September 8 (Economic Viewpoint) castigates Goldman Sachs for trying to guess the non-inflationary growth rate of the UK in its advice that interest rates ought to rise. There is, however, a more subtle argument for raising interest rates soon than one that sees renewed inflation around every corner and that relates to the relative risks run in making the wrong decision.

Not to raise rates and to find that inflation takes a hold again would mean that the harsh anti-inflationary medicine that the economy swallowed in 1992 was all in vain. And it would reinforce the image that the sceptics have of the British economy as one prone to inflation and boom/bust cycles.

To raise rates, however, runs very little risk indeed. With the output gap falling, Europe emerging from recession and the rest of the world for the most part growing strongly, there is every reason to invest. And because raising rates would reinforce the determination on the part of the monetary authorities to provide a stable low inflationary environment, it could even be argued that that would be positive for investment! If consumer expenditure does take a dive, then interest rates can easily be lowered with no longer-term damage (and anyway since, if the authorities are seen to be ahead of the game, longer-term interest rates will surely fall, the impact on consumer expenditure is likely to be quite mild).

Stephen Popham,
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Fair balance

From Mr Frits van Kempen.

Sir, I read with surprise A C Grayling's book review "Balancing Terry Maher's books" (September 10/11). Is Mr Grayling certain that he looked at a balance sheet on Terry Maher? Accounting convention suggests that he has been looking at Terry Maher's profit and loss account or bank statements instead.

The credit side of a balance sheet is normally associated with liabilities and the debit side with assets, therefore I would expect the memorable events of Terry Maher's life to date to be recorded as assets at net book value on the debit side of his balance sheet and the less memorable events as liabilities at face value on the credit side.

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Crisis helps advance ideological positions on population growth

From Prof Jagdish Bhagwati.

Sir, Edward Mortimer's article ("False alarm in Cairo", September 7) on the Cairo conference on population misses the point in arguing that the delegates miss the point by focusing on ideology rather than on population growth which, in any case, can be expected to become "nearly stationary" on current trends.

As it happens, the complacent and comforting population projections that Mortimer accepts are as fragile as the alarmist ones, if past projections are any guide, which is why it has become customary to work with alternative scenarios. Nor is Mortimer well advised to rely on economists who dissociate hunger and destitution from population explosion. These scourges occur despite the per capita availability of enough food to avoid them since need and demand are two different things, but it is a non sequitur to conclude that therefore they cannot occur due to pressure of population: in a raft at sea with the last bottle of fresh water, Robinson Crusoe would do well without Man Friday, you bet.

Even if you do not believe the alarmist estimates, however, it may be prudent to rely on the precautionary principle. But many go with the estimates for a different reason. They seek to create and then use a sense of crisis to advance ideological positions, exaggerating in turn the impact of their preferred policies to advance them as cures to the crisis. Just as John Stuart Mill shrewdly observed that "a good cause seldom triumphs unless someone's interest is tied up in it", the women's groups that properly seek empowerment and abortion rights see political value in a sense of crisis (no matter how weak its intellectual underpinnings) that creates ferment, fuels urgency and fertilises the ground for their causes to take root.

In fact, even the suggestion that female education – and Mortimer may well have added female participation in the workforce – rather than ideology aids population control draws a false contrast. Female education has generally advanced because of ideology, not because of a cost-benefit calculation by us economists of its value for population control or growth rates. That we can simultaneously argue, thanks to the research of economists such as Robert Repetto, that it advances these other causes, while being a good in itself, is splendid: it enables us to do well while doing good.

But we must not forget that a good society will address precisely these ideological questions at every opportunity, seeking progress in the well-being of women that, astonishingly, still eludes them in every part of the world.

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FINANCIAL TIMES

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Tuesday September 13 1994

Mr Clarke buckles up

And the sound that you heard was the sound of precedents breaking. The UK chancellor, Mr Kenneth Clarke, yesterday decided to raise interest rates, before such a move was thought overdue, and only a month before the Conservative party conference. What is more, the leader of the opposition did not criticise the increase. Although a conclusive verdict will not be possible for some time (if ever), the policy shift looks about right. The breaks with tradition can be welcomed even less reservedly.

Over two years into economic recovery, the direction of yesterday's half-point change – which took UK base rates to 5.75 per cent – was no surprise. The shock was the timing, and to a lesser extent, the size of the increase. On both, Mr Clarke has taken a small-ish economic risk, and a larger political one.

The economic gamble in yesterday's rise is that the recovery is strong enough to take it. Pointing to last week's mixed batch of data, critics might argue that this is far from certain. UK consumers may yet react more negatively to this year's tax rises than many suppose. Moreover, a rise in interest rates could, on this argument, snuff out any chance of a sustained upturn in investment, which has sadly lagged behind in this recovery to date.

It is in the nature of a "pre-emptive" rate rise that these doubts will be raised. But the recent experience of US monetary tightening indicates that the authorities cannot afford to look reluctant to raise rates as the economic cycle matures. The UK yield curve is unusually steep for this stage in a recovery, while price pressures, though thankfully slight, are visible nonetheless.

The yield curve offers a reward for plucky chancellors, in the form of lower long-term rates. Judging by yesterday's market reaction, the decision to tighten could deliver just such an effect. The gap between UK and German government long-term bond rates – a good guide to differing inflation expectations for each country – narrowed a little to close at about 1.35 percentage points.

As the continued size of that gap indicates, it will take more than a single pre-conference preemption for Mr Clarke to convince many that the UK's historic penchant for "boom-bust" economics is gone for good. These fears would revive, for example, if Tory backbenchers were successful in winning tax cuts in the November Budget "in return" for having swallowed yesterday's rate increase.

It is crucial that the rationale for yesterday's increase be understood to be a long-term one: delivering the government's own inflation target of 1-2½ per cent before the end of the current parliament. Yesterday's move seemed refreshingly novel: the good news is that with luck Mr Clarke will not have to steel himself to do the same again for some time to come.

Bosnian bravado

There are two ways that external powers can influence the outcome of the war in Bosnia-Hercegovina, if they so choose. One is to treat it as a war of aggression and come to the aid of the victim (Bosnia) against the aggressor (Serbia). The other is to treat it as a civil war, in which the various parties are essentially on the same moral plane, and nudge them towards a compromise peace while bringing relief, and where possible protection, to the civilian victims.

The first strategy was what Bosnians were led to expect when the US and the EC recognised their state and government in April 1992. Had it been followed at that time, the arms embargo applied to Yugoslavia the previous year would never have been applied to Bosnia.

Weapons would have been rushed to Bosnia along with training missions to help the new state organise its armed forces and push back the Serb militias which were partly infiltrated from Serbia and almost entirely armed and trained by the former Yugoslav army. The Bosnian armed forces could have been provided with western air cover. In that event, if external ground troops had been sent they would have gone not as supposedly impartial peacekeepers but as an expeditionary force to protect Bosnians from "ethnic cleansing" and help liberate the territory that had been occupied.

But it was not followed. The Bush administration, which with some justice held the EC responsible for precipitating the war in Bosnia by its premature recognition of Croatia and Slovenia, allowed Europe to take the lead. Within Europe the Germans, feeling themselves disqualified by history from any military role in the Balkans, deferred to Britain and France, both of which took the second approach. In early 1993 Bill Clinton made a half-hearted attempt to persuade Europe to switch to the first strategy under the rubric of "lift and strike", but backed off when Britain and France claimed a veto over any policy that might imperil their contingents on the ground.

In 1994 an awkward compromise emerged which is short on logic and clarity but has had some results, mainly because the five most influential external powers have acted in unison. Broadly, it is still the second approach, but with greater pressure applied to the Serbs in an attempt to compensate for the weakness of the Bosnian government and to redress at least part of the wrong done to Bosnian Moslems. The contact group peace plan is hardly a model of justice, but it would at least give Bosnian Moslems and Croats enough space to live in without fighting each other, as they are bound to do if they remain confined to less than 30 per cent of the country between them. Moreover the Contact Group has scored a significant victory in getting President Milosevic of Serbia to endorse the plan and to disavow the Bosnian Serbs' rejection of it.

The Bosnian Serbs have never been so isolated. Having got so far, the Contact Group should insist that Serbia co-operate in making that isolation watertight, and wait for its effects to sink in. The threat of lifting the embargo should be kept in the background. Actually lifting it would make sense only if there were agreement by all parties to switch to the first strategy, of helping the Bosnian government in a war to "liberate" its entire territory.

The truth is that no party, not even the US, is prepared to do this. Some American legislators may imagine they can help the Bosnian Moslems as they once helped the Afghan Mujahidin. The analogy is flawed in many respects; but Afghanistan today gives all too convincing an image of what Bosnia might look like in a few years' time if the Congressional "strategy" were applied.

FDP on the ropes

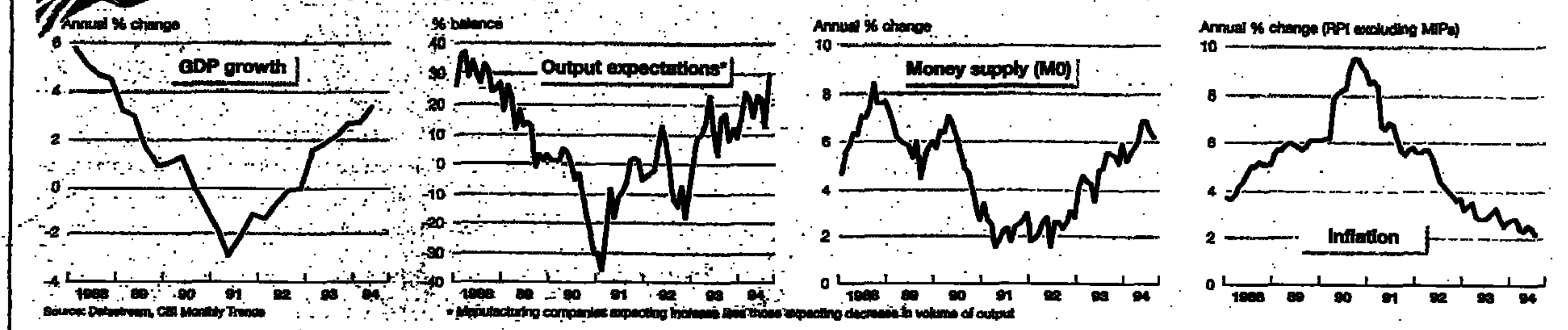
Germany's Free Democratic Party, the kingmaker in virtually every coalition since the founding of the federal republic, suffered another pair of devastating electoral defeats at the weekend in east Germany. For six elections in a row, the party has now failed to win the 5 per cent of the vote needed to gain seats in state, federal and European parliaments. In the eastern state of Saxony, the FDP won just 1.8 per cent, compared with 5.3 per cent in 1990. In neighbouring Brandenburg it did only marginally better, with 2.2 per cent, although that was a sharp drop from the 6.6 per cent it won four years ago. The electoral writing would appear to be truly on the wall for the FDP.

As far as east German electors are concerned, it seems to have little to offer. Its policies of liberal market economics, deregulation, and free trade, combined with a mistrust of state interference at all levels, and a liberal attitude to immigration and race relations, have failed to find any response from the newly-enfranchised east Germans. One factor is clearly that there is no real middle class to appeal to in the east. But another is the signal failure of the FDP to find policies of relevance.

The trouble for the party of Mr Klaus Kinkel, the German foreign minister, is that it is scarcely better off in west Germany. Most political analysts still expect the FDP to scrape into the Bundestag in the general election in October, but it may well not have enough seats to repeat the present coalition with Chancellor Helmut Kohl, or to form an alternative with the opposition Social Democrats. The most likely outcome would then be a "grand coalition" of Christian Democrats and Social Democrats, which neither of the big parties really wants, leaving the liberals out in the cold.

The FDP has no one to blame but itself for its plight. The party has been too long in power, and shows no inspiration except in its desire to hang on to it. It wants to distance itself from Mr Kohl, but cannot do so for fear of losing what little appeal it still has. Too many years of being all things to all men have taken their toll. The loss of the real voice of liberalism from the German political debate would be severe. But it may take a period in opposition to give that voice back its authority.

UK economy: fast growth fuels inflation fears



The UK interest rate rise shows the government sees political gain in controlling inflation, says Peter Norman

Prevention rather than painful cure

The scene was probably unique in Britain's post-war history.

Yesterday morning a supremely confident – some might say ebullient – Chancellor Kenneth Clarke called the press into the Treasury to hear him explain an *increase* in UK interest rates.

Under past Tory chancellors, such moves were usually made in response to financial market crises and associated with policy failure. Mr Clarke was unabashed in presenting it as a sensible step towards securing the economic recovery and expanding employment.

Although some increase in UK borrowing costs had been widely expected for some time, the significance of Mr Clarke's move should not be underestimated. Yesterday's rise of half a percentage point in bank base rates to 5.75 per cent is the first increase in officially inspired lending rates for nearly five years.

As the last Tory chancellor to begin raising rates after a period of falling borrowing costs – Mr Nigel (now Lord) Lawson – was forced to keep ratcheting rates upwards to 15 per cent, it would be unnatural if Mr Clarke's decision did not stir troubling folk memories in the Conservative party and the nation at large.

But the reason that Mr Clarke appeared so cheery as he fielded questions yesterday was that he hopes and believes his move will spare him the agonies suffered by Mr Lawson between May 1988 and October 1989 when base rates soared from 7.5 per cent to 15 per cent. The smiles on the faces of Treasury officials – and across town among senior Bank of England staff – show that his advisers think he could be right.

To an important extent Mr Clarke has grabbed the policy initiative and further defined his chancellorship. We knew that he always said he was opposed to inflation. We knew that he was prepared to be tough on fiscal policy, not hesitating to push up taxes last November. Yesterday, he reinforced his reputation for fiscal prudence by explicitly ruling out tax cuts in his forthcoming Budget on November 29.

But there were doubts about whether this self-styled son of the industrial Midlands understood the need for timely and hard decisions on monetary policy, not least because of his insistence last February on a base rate cut when Mr Eddie George, governor of the Bank of England, and most of his officials in the Treasury were opposed.

Yesterday, Mr Clarke showed he will take potentially unpopular action based on a medium-term view of the economy when current indicators of inflation are subdued. Underlying inflation, as measured by the retail prices index excluding mortgage interest payments, was just 2.2 per cent in July. This was its lowest level for 27 years – and in the lower half of the 1-4 per cent target band, where the government is committed to having inflation by the end of this parliament.

The strategy is not without risks. Mr Clarke admitted that the decision to raise rates – taken finally at lunch time last Friday – was "finely judged". When Mr Clarke and Mr George held the first of their monthly monetary meetings after the summer break last Wednesday they agreed that the economy was "poised" for an interest rate increase, but still had some doubts over whether to act straight away or after their next meeting at the end of this month. The final decision came after a two-day pause for reflection.

While the two men agreed that inflation is currently very low, they noted that some indicators – such as commodity prices, manufacturers' input prices and CBI surveys of corporate pricing intentions – suggested that cost and price pressures had begun to pick up. Monetary indicators were mixed, although continued strong growth of M0, the narrow measure of notes and coins in circulation, continued to be a worry.

Principal among the factors persuading the two to raise rates was evidence of stronger than expected growth in the first half, when gross domestic product rose at a year-on-year rate of 3.7 per cent. This was well above the the 2.75 per cent growth rate forecast for this year by the Treasury in June and the UK's estimated "trend" growth of about 2.25 per cent at which the economy can expand without stimulating inflationary pressures.

The decision was also influenced by last month's latest CBI survey of industry pointing to a further acceleration of output and above average capacity utilisation, as well as growing evidence of faster growth in continental Europe and signs of recovery in Japan.

Core data about the economy published in August and relating to the first half of this year appears to have weighed more with the chancellor and governor than more recent indicators suggesting that consumer demand might at last be slowing in response to tax increases that took effect in April. The subdued state of the housing market, where estate agents have complained of weak turnover and mortgage lenders have been scaling down their forecasts of price rises this year, did not stand in the way of the rate rise. The Bank's view in any case is that the housing market is "steady" and not weak.

The decision shows how closely attuned Mr Clarke and Mr George now are. Mr George did not have to mount a long campaign to persuade Mr Clarke to act. True, in the summer the governor was the first to warn that rates would have to rise. But it is understood that last Wednesday's meeting was the first at which Mr George specifically recommended a rise in rates. By Friday at the latest, the chancellor was on the same wave-length.

Yesterday Mr Clarke was sounding for all the world like the author of the Bank of England's quarterly inflation reports, underlining the need to act in a timely manner to influence inflation in 18 months to two years' time.

Quite what effect a 0.5 percentage point rise in rates will have on the economy is open to question. Given the wide gap between the old base rate of 5.25 per cent and most mortgage rates, yesterday's prompt action by the Nationwide Building Society and the Abbey National bank in raising mortgage rates was probably not in the authorities' scenario for developments after the rate increase. However, the hesitancy of other mortgage lenders to follow suit could point to a patchier than usual response among mortgage lenders.

While many business organisations were predictably critical of the move, the higher rates may not have too great an impact on corporate borrowers because market rates had already discounted such a step.

The chancellor's move was politically brave. With the Tory party conference four weeks away, the absence so far of a "feel good factor" in the recovery and the party's lamentable performance in the opinion polls had argued against any increase in rates before November.

Instead, Mr Clarke yesterday clothed himself in monetary statesmanship. Using vocabulary suitable for a Bundesbank council meeting, Mr Clarke stressed the importance of low inflation for strong and lasting growth. He had taken action now to avoid more drastic action later. Businessmen would welcome the move because it promised stability. He hoped it would reassure home buyers of the government's counter-inflationary resolve and influence wage bargainers.

Indeed, the chancellor made clear that he believes there is political advantage to be gained from running the economy in a way that keeps inflation under control. His vision is of a Britain that is "one of strongest European economies", that "is firing on all cylinders" and which no longer is brought grinding to a halt by the need to bring down inflation from double-digit levels.

It is unclear whether yesterday's rise in interest rates will achieve this goal or whether further increases are in store. One senior official suggested that the November meeting of chancellor and governor will be time for a stock taking of its effect on the economy.

What is clear, however, is that UK monetary policy has embarked on a new era of anticipating problems rather than responding to disaster.

How to flatten the cycle's ups and downs

PERSONAL VIEW

We are barely out of the last recession and already the economic brakes are being applied. Businesses and households across Britain have good reason to feel worried.

But these concerns will go beyond the extra burden yesterday's rate rise will place on family and investment budgets on top of this year's tax increases. More fundamental still is what the increase reveals about the long-term weaknesses of the British economy. It is here that the real political debate will be joined, not over whether each rise is in itself justified.

The fact is that the government has failed to create the conditions necessary for sustained growth without accelerating inflation. These conditions are a strong and dynamic economic base, with the industrial capacity and skilled workforce necessary to cope with rising demand. Without them, slow growth, rising insecurity at work, high unemployment and increased social decay will persist.

Of course, it is a matter of acute economic judgment whether yesterday's increase was necessary now in order to choke off inflationary pressures or could have been postponed until later. Recent economics statistics tell conflicting stories – weaknesses in the housing market but rising retail sales; stable retail price inflation but accelerating producer prices.

What is clear, however, is that the Treasury and Bank of England, on the basis of published statistics and privileged information available to them, believe that rising inflationary pressures justify action now to slow the recovery.

But why is inflation threatening to derail economic growth at such an early stage of the recovery? When Alan Greenspan, chairman of the US Federal Reserve, raised US interest rates at the beginning of this year, the US economy had been growing for three years and output had risen by 10 per cent.

UK rates, already higher than in the US, Japan and Germany, have been forced up only two years from the bottom of the recession with output up just 5 per cent.

Part of the problem is credibility. It must be worrying for the government that it has made so little progress over the past two years in persuading the public and the financial markets that it can keep inflation under control.

The implied City forecast in the index-linked bond market is an inflation rate of more than 5 per cent by the end of the decade, a long way from the government's pledge of 2.5 per cent by the end of the current parliament.

The government's lack of credibility is not simply a question of competence but of analysis

But the reason for this lack of credibility goes to the heart of Labour's critique of the Conservatives' economic mismanagement over the past 15 years. For the reason why neither the financial markets nor the Bank of England believe that the government will meet its inflation objectives is not simply that it has failed before, but that it continues to treat inflation as the disease, not the symptom, of a deeper economic malaise in the British economy.

In short, the government's lack of credibility is not simply a question of competence but of analysis and understanding. For the root cause of Britain's economic failures is that our economic base is too small and backward to deliver the employment opportunities and sustained, non-inflationary growth we need – too few successful firms, not enough skilled workers, too little research into the development and use of new technologies.

Tackling inflation is not simply about prudent monetary policy, important though that is. Instead, economic policymakers in Britain need to tackle what CBI director-general Howard Davies recently identified as "crucial structural weakness" in the British economy – the deficiencies which mean we have high unemployment alongside rising skill shortages, and a recovery starved of new investment.

What Britain needs is a modern industrial policy to build up our economic base – to encourage more long-term investment in industry, support small businesses and encourage the use of private finance in public infrastructure projects. It needs a tax system which encourages investment rather than tax evasion and promotes employment rather than unfairness. And it needs to boost the education and skills of British workers.

Only then will the UK economy be able to deliver rising living standards and employment growth without running into an inflationary mire. No government can avoid completely the ups and downs of the business cycle. Our aim must be to minimise them and provide the conditions for stability and growth which will make Stop-Go economics a thing of the past and remove the spectre which now haunts this recovery.

Tony Blair

The author is the leader of the Labour party and member of Parliament for Sedgefield

OBSERVER

Vladimir's welfare

■ Some former communists are such excellent exponents of free market economics that you wonder what on earth was going on inside their heads just a few years back.

Take former Communist party member Vladimir Dlouhy, for instance, currently the Czech Republic's most popular politician. In the five years since Prague's velvet revolution, Dlouhy has become leader of the liberal-conservative ODA party and also been taken on as minister for industry and trade.

Dlouhy was in London yesterday, trying to drum up interest in investment from the Confederation of British Industry. He drew a convincing picture of an economy which has metamorphosed from Comecon dodo into lean, mean machine of new-found liberalism. He also did a slash and burn job on west Europe's welfare state practices, accusing them of being the root cause of damaging anti-dumping measures taken against former communist states.

Dlouhy told the CBI that blaming low wages in Asia and eastern Europe for western Europe's relatively poor economic performance was wide of the mark. The true cause of European Union sluggishness is bloated social security payments, pushing labour costs in Germany to levels as much as 15 times higher than in the Czech Republic. So cut the welfare state nonsense and introduce proper competition, to the benefit of all.

Where on earth did Dlouhy dream up such radical notions? Maybe he was thinking of those countries where the state is so bankrupt as to be unable to meet its pensions, healthcare and social security commitments – such as former communist regimes.

Beyond the pale

■ Brendan O'Friel, chairman of the Prison Governors' Association, interviewed on BBC Radio's *Today* programme yesterday, noted that there had only been four attempted escapes by IRA prisoners involving the use of arms. "Two in Northern Ireland, and two in this country."

Perhaps the Reverend Ian Paisley, the Ulster Unionist leader, has a point after all...

Wiser man

■ What a relief to find even Goldman Sachs' Gavyn Davies, one of the Treasury's wise men, makes the occasional boo boo. His column in yesterday's Independent newspaper carried the immortal words "Short of Eddie George making an announcement by loudhailer from the middle of Threadneedle Street, no more conspicuous statement of unchanged policy could have been made."

So what went wrong? Davies puts it down to equipment failure. He likens the Bank of England's signalling to the money markets to the way that the Sea Lords used to send messages to the fleet by a system of pulleys and wires and semaphore flags. Davies's verdict is that "a seagull sat on the line".

'If I had a job, I probably wouldn't be so exuberant'

Harbouring doubts

■ Next month's Conservative conference contains a poignant side amid all the more traditional fare of Tory conference agendas – hanging, flogging, tax cuts, withdrawal from Europe and so on. There will be a heartfelt plea from the local party in Market Harborough in Leicestershire, which will urge "Her Majesty's government to be more mindful of single people who feel discriminated against with regard to single supplements for hotel accommodation".

Dotty Lotty

■ The lure of the DM42m jackpot, the largest in the 40-year history of the German lottery, has elicited some pretty strange behaviour. Take the 33-year-old man from Erlangen who presented his bank with a lottery slip with the six numbers correctly crossed and a forged letter from the lottery organisation confirming he had won (a positively modest) DM2m. The bank extended a DM30,000 loan. By the time it sniffed a swindle and caught the man he had spent DM29,000 on trips to Paris, London and Leipzig.

Needled

■ Times change – even at the Royal School of Needlework in Hampton Court.

The impeccably connected Giles Shepard, skilled embroiderer of some 30 years' standing, was recently replaced as chairman of the finance committee of the Royal School by John Burke, chief executive of Bristol & West Building Society. The well-cushioned Burke, whose dexterity with a needle doesn't quite stretch to fixing buttons on shirts, says that a friend on the council had been keen to tap a wider pool of business knowhow.

Now that Shepard, who remains a council member, has checked out as managing director of The Savoy, he will perhaps have more time once again to devote to the school's most urgent task – raising funds to educate its apprentices. But perhaps one of the other luminaries on the council might volunteer to return with the begging bowl to Rocco Forte, who has apparently been known to donate in the past.

Brand pain

■ How do you cure an 80-year-old headache? Open your wallet, take out $1bn, and buy a chunk of aspirin. That's what Bayer has just splashed out to acquire Sterling Winthrop, thereby regaining its old Bayer Aspirin brand.

Bayer developed aspirin at the turn of the century. But during the first world war the US Alien Property Custodian took control of Bayer's US property and in December 1918 sold those assets to Sterling Drug for $5.31m. The German company has been smarting ever since: it lost not only its brands, but also the use of its name in the US.

Mind you, the Kaiser always preferred paracetamol...

FINANCIAL TIMES
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Bonn seeks early opening of state telecoms network

Germany set to go it alone if EU fails to set liberalisation date

By Christopher Parkes in Frankfurt and Andrew Adonis in London

Germany may allow new telecommunications companies to open their own networks by the end of 1997, in spite of strong opposition from state-owned Deutsche Telekom and national operators in other European Union countries.

In a surprise about-turn, Mr Wolfgang Bötsch, post office minister, said Bonn would consider going it alone if the EU's council of ministers failed by the end of this year to fix a date for liberalising all EU networks.

A report this year by an EU group on the development of "information superhighway" services said competition in the provision of networks was essential if Europe was to be competitive with the US and Japan.

The Commission is currently drafting proposals, due to be published early next year, that would open telecoms network infrastructure to competition at the same time as telecoms services.

Basic phone services are set to be opened to competition in January 1998 across most of the EU. That would also become the date for infrastructure competition if EU ministers support the Commission.

A Commission official said Mr Bötsch's statement was an "important first step" towards persuading vested interests – notably state-owned telecoms companies – to accept the inevitability of early infrastructure competition.

Mr Bötsch, who had previously insisted that the 12 EU states should move together and grant open access to networks one or two years after the 1998 services deadline, said Deutsche Telekom needed to be able to plan clearly.

However, the move is still strongly opposed by Deutsche Telekom, which is preoccupied with the privatisation of the company due to start in early 1996.

Mr Rolf-Dieter Leister, chairman of Deutsche Telekom's supervisory board, told the Süddeutsche Zeitung newspaper: "I certainly do not represent the view that Germany should become the front runner in European telecoms liberalisation."

Mr Leister, Telekom's most senior non-executive director, made plain that Telekom management, preparing for the transition to a joint stock company next January, was hampered by the need for all important decisions to be approved at the political level.

Telekom's mandate had to be made clear now for the benefit of future shareholders, he said. It was especially important that the enterprise should be able to establish foreign subsidiaries and appoint top managers without Mr Bötsch's having the final say.

Meanwhile, management needed to be clear on the scope and timing of domestic liberalisation moves. "Will the minister license corporate networks? How will he deal with alternative networks? What will happen with broad-band cable? How will mobile telephones develop in future?" he asked.

The UK has allowed competition in telecoms infrastructure for a decade, and the Netherlands is set to follow suit following the partial privatisation of its state operator earlier this year.

Dublin bombing dampens peace hopes

By John Murray Brown in Belfast, and Kevin Brown, Michael Cassell and Jimmy Burns in London

The prospect of an early end to Irish political violence receded yesterday as the outlawed Ulster Volunteer Force admitted responsibility for bombing a Dublin railway station.

The bombing was condemned as "revolting" by Sir Patrick Mayhew, Northern Ireland secretary, reflecting British concern that loyalist violence could threaten the open ended IRA ceasefire announced last month.

Mr Pat Doherty, a senior official of Sinn Féin, the IRA's political wing, accused the UVF of trying to force the Dublin government to abandon direct contacts with republicans. "The loyalist hope is that fear of the conflict being brought 'down here' will scupper the peace process," he said.

Mr John Hume, leader of the moderate nationalist Social Democratic and Labour party, said he was confident that the IRA would not retaliate because Sinn Féin's leadership was "totally committed" to the peace process.

Mrs Maire Geoghegan-Quinn, the Irish justice minister, said the attack would not deflect the Dublin government from its aim of consolidating the republican ceasefire by talking directly to Sinn Féin.

British officials expect the US to grant a visa soon to Mr Gerry Adams, the Sinn Féin president, as part of the Irish government's strategy of drawing Sinn Féin into mainstream politics. However, the British government believes that President Clinton and other leading Administration officials will avoid a direct meeting with the Sinn Féin leader to prevent a weakening of Unionist support.

The 2kg Dublin bomb exploded as an express train from Belfast was pulling into Connolly station in the city centre. Two women with slightly hurt. Irish police said the explosion was caused by a detonator which failed to ignite a bigger explosive charge, suggesting that the casualties could have been much higher. The UVF said it had planted bombs in seven other locations in the city. None were found.

The bombing reflects continued loyalist suspicion of a secret deal between Britain and the IRA, and confirms that protestant terrorists are prepared to take their campaign to the Irish Republic. The Combined Loyalist Military Command, which represents the UVF and the Ulster Freedom Fighters, the two main terror groups, said last week that a loyalist ceasefire would depend on assurances that no deal had been done.

Ulster peace dividend, Page 12

KKR buys Borden for $2bn

Continued from Page 1

was considerable scope for merger between RJR and Borden, particularly in the snacks market.

RJR declined to comment yesterday. However, the deal specifies that if RJR should buy any of Borden's businesses in the future, it may use in payment the Borden stock it stands to acquire through yesterday's transaction.

For KKR, the immediate question is what to do with the loss-making parts of Borden's business, including the dairy division, which makes up a quarter of group sales.

An adviser to KKR said no decisions would be made until a definitive agreement was signed in two weeks' time. "They've barely begun thinking about it," she said.

Analysts commented that the move partly represented a switch by KKR out of RJR, where earnings have improved sharply in recent years, to a more highly geared recovery play.

Borden has made heavy losses in the past two years, chiefly because of restructuring charges.

Mr Les Pugh of Salomon Brothers said: "It's a very, very smart deal. It's not an industrial merger, but a wonderful piece of financial engineering."

Borden's shares rose $2¼ in early trading to $13⅞. RJR shares fell $⅛ to $6⅞.

Video-on-demand set to take off for in-flight viewers

By Raymond Snoddy in London

A California company is planning to intensify competition for the world in-flight entertainment market by taking video-on-demand above 30,000 ft for the first time.

Micropolis Corporation, which specialises in video-on-demand technology, has signed a deal which should lead to the introduction of the film of your choice, when you want it, on Pacific flights from next year.

Showing films on long haul flights is already routine, but the Micropolis system means that around 20 feature films will be instantly available to passengers. They will be able to choose a film when they are ready and pause or play back the screening.

The system is sophisticated enough to serve all the first and club class passengers simultaneously – typically around 96 people – even if everyone choses the same film. A similar service will be available to economy class passengers for a fee.

Mr Stu Mabon, chief executive of Micropolis, which has UK offices at Reading, Berks, southern England, said yesterday he would announce the deal at the World Aviation Entertainment Association's annual convention in Montreal next month. He declined to say whom the deal was with, but it is believed to be with Matsushita, the Japanese consumer electronics group which has an in-flight equipment division. The first airline to use the system is expected to be Singapore Airlines.

The system, an airline version of the AV Server 100, will be demonstrated at the IBC broadcasting convention in Amsterdam this month, Mr Mabon said.

The competition for in-flight entertainment is already intense. Virgin Atlantic, which offers four channels of feature films, is in the process of introducing home shopping and even the ability to gamble on route.

Micropolis says the system is the first to go commercially operational. It has already gone live in seven hotels in the US including the Omni Richardson and Grand Kempinski in Dallas, Texas, in partnership with SpectraVision, the hotel entertainment company.

Mr Mabon said it appeared that offering guests a wide choice of films, at exactly the moment they wanted them, had nearly doubled film revenues in the hotels which have the system.

Apart from hotels and aircraft, Micropolis is targeting cruise ships, training services and the cable television industry for the systems, which cost around £50,000 ($77,500) each.

THE LEX COLUMN

Turn up for the book

The turn in interest rates in the UK has been received rather differently from that in the US. When the Federal Reserve moved in February, bond and equity markets tumbled. Yesterday UK equities dipped only slightly, while gilts jumped by nearly a point at the long end. Of course, the markets have had plenty of time to position themselves for a rise in base rates. But the reaction suggests that the UK authorities may have managed a pre-emptive strike which will enhance their anti-inflation credibility in the short term. That does not mean, though, that they have also secured a soft landing.

Recent data on housing, the retail trade and the motor industry suggest the consumer side of the recovery may have already tapered off. But the economy is still growing at close to 4 per cent, so the output gap is closing. That alone might warrant some monetary action, even without yesterday's evidence of rising wholesale prices. The markets would be deluding themselves, however, if they thought that one half-point rate rise would be sufficient to halt this trend. If they wish to appear consistent, the authorities must tighten policy until the growth rate slows.

The implication for equities is not encouraging. Earnings are unlikely to keep up this year's cracking pace in 1995, especially after a further increase in taxes. Gilts ought, by contrast, to have room to advance. But they remain at the mercy of sentiment in the international bond market. The Bank of England has yet to announce an auction for September. It must hope that the positive mood will last long enough to get a conventional sale away. Now that base rates are rising, it could not sell any more floating rate debt without serious loss of face.

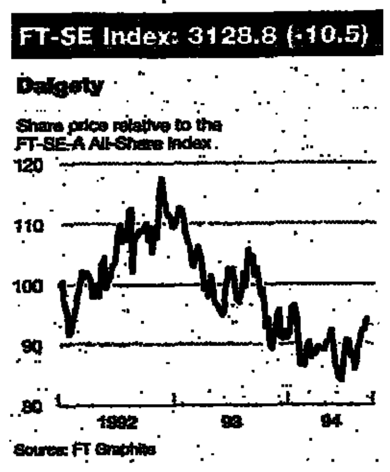
KKR/Borden

KKR's $2bn bid for Borden looks like a triumph of financial engineering. The leveraged buy-out group is not only acquiring a pasta-to-wallpaper conglomerate which is ripe for a break-up. By paying with shares in RJR Nabisco, KKR has also halved its exposure to the tobacco and food manufacturer. RJR has not been the fabulous investment KKR initially anticipated when it bought it for $26bn in 1989, mainly because of the cigarette price wars launched on Marlboro Friday. KKR presumably thinks the bulk of the gains from restructuring RJR have already been achieved – a point other shareholders should note.

FT-SE Index: 3128.8 (-10.5)

Dalgety

Share price relative to the FT-SE-A All-Share Index



Source: FT Graphite

Meanwhile, the share swap between Borden and RJR is designed to facilitate the transfer of some Borden assets to Nabisco. RJR would pay with its $500m worth of Borden shares. Borden could then sell its RJR stake and use the cash to pay off some of its debt mountain.

The deal, though, has industrial as well as financial logic. Borden, in common with most food manufacturers, has seen its brands devalued as retailers and consumers have driven harder bargains. The industry is now aiming to regain some of its lost bargaining power by reshuffling assets and concentrating on fewer product areas. United Biscuits' purchase yesterday of Dalgety's Dutch snack business is another example of the trend. Though Borden has few powerful brand names, its assets should prove more valuable in other companies' hands.

Dalgety

Dalgety is a minnow in a sea of food manufacturing whales, facing the constant danger that profitable niche markets will prove vulnerable to assault from larger competitors. It was this phenomenon – in the form of intensifying competition in the UK crisps market – which helped drive margins in the group's food division down from 11.2 to 8.8 per cent last year. Recognising the difficulties, Dalgety yesterday signalled a subtle but significant refinement of its strategy.

It is pinning its hopes on the Europe-wide pet foods and food ingredients markets, two segments of the food manufacturing industry where Dalgety reckons it can more than hold its own against giants such as Mars and Unilever. The group will continue to defend its share of the crisps and snacks market in the UK, but will withdraw from continental Europe – hence the sale of its Dutch business in this sector to United Biscuits.

Whether this is a complete answer to the strategic issue is unclear. Pot noodles and savoury snacks alone will not secure good returns for Golden Wonder in the UK over the longer term. Ultimately it might make sense to dispose of Golden Wonder so as to finance more rapid expansion in pet foods and snacks. There are benefits in the pipeline from the restructuring undertaken by the new management, but, until Dalgety takes final shape, the main attraction will be its 5.5 per cent yield.

SmithKline/Bayer

SmithKline Beecham's sale of Sterling's north American consumer healthcare business to Bayer looks a smart move. SB never needed Sterling's operations to strengthen its US over-the-counter businesses. The driving logic was to fill geographical gaps elsewhere. Yesterday's deal rids the company of embarrassing product overlap and reduces debt which had become sufficiently burdensome to worry some investors. The only possible fly in the ointment remains an as yet unquantified tax charge.

Whether Bayer has pulled off a masterstroke is more doubtful. On a romantic level, for the first time in nearly 80 years, the German company enjoys the right to use its own name and the Bayer Cross trademark in the US. Strategically, the group justifies the purchase by arguing it now has strong brand names in the three largest US OTC categories. By 1995, the group expects hopes to have critical mass, with projected annual OTC sales in north America of more than $700m.

Bayer can afford the acquisition, and has been helped by the strength of the D-Mark against the dollar. But the question remains whether the deal is good value. The speed with which it was concluded, and the poor negotiating tactic of announcing interest within hours of SB's Sterling acquisition, will not have reduced the price. At 23 times last year's earnings, the business does not look cheap. Bayer will have to work hard at building margins to avoid the criticism that a German chemicals company has yet again overpaid for its assets.

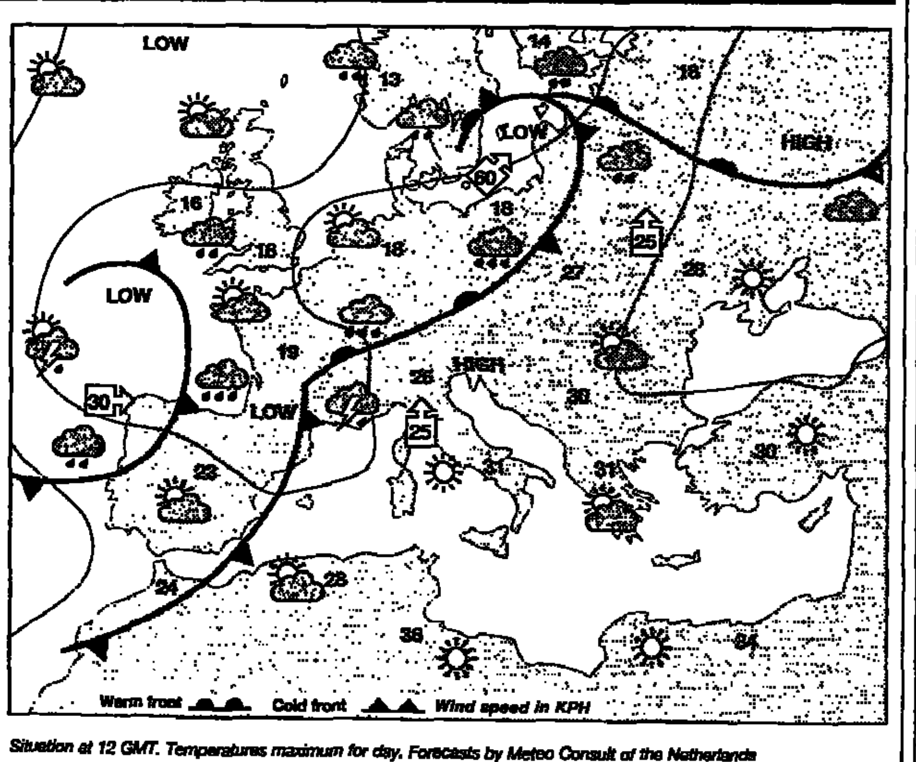
FT WEATHER GUIDE

Europe today

A warm air mass over southern and south-east Europe will continue to give temperatures up to 30C from Italy to Greece and Turkey. This warm air will be separated from cooler air by an active front from France to the Baltic states and Sweden. Southern and south-east France will have most of the heavy showers, while intermittent rain will linger in Poland. Rain will be driven by a south-westerly gale around the centre of low pressure. Northern France and the Low Countries will be dry with sunny spells, as will England, where fog patches will persist well into the morning. Meanwhile, significantly cooler air will move south on the Iberian peninsula. There will be heavy showers in north-west Spain and in Portugal.

Five-day forecast

Rain and showers will cover Denmark, the Low Countries, most of France and the Alps. Temperatures will struggle to reach 15C in Brussels, Copenhagen and Paris. Cooler air will be drawn into the UK but showers will be limited in England and the Republic of Ireland. Scattered thunder showers in central Europe will slowly move east towards the Balkans.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum Celsius																
Abu Dhabi	sun	40	Beijing	cloudy	25	Caracas	shower	31	Faro	fair	24	Madrid	sun	23	Rangoon	rain	32
Accra	cloudy	27	Belfast	shower	15	Cardiff	fair	17	Frankfurt	shower	19	Majorca	fair	29	Reykjavik	shower	9
Algiers	fair	32	Belgrade	sun	31	Casablanca	fair	24	Geneva	thund	20	Malta	sun	30	Rio	fair	24
Amsterdam	fair	18	Berlin	rain	19	Chicago	shower	27	Gibraltar	fair	26	Manchester	fair	17	Rome	sun	29
Athens	sun	32	Bermuda	shower	31	Cologne	fair	19	Glasgow	shower	14	Manila	shower	31	S. Frsco	fair	21
Atlanta	fair	30	Bogota	shower	21	Dakar	fair	28	Hamburg	fair	17	Melbourne	shower	17	Seoul	fair	24
B. Aires	fair	20	Bombay	rain	29	Dallas	fair	33	Helsinki	thund	14	Mexico City	shower	21	Singapore	cloudy	31
B.ham	fair	17	Brussels	fair	18	Delhi	fair	28	Hong Kong	rain	31	Miami	thund	29	Stockholm	shower	15
Bangkok	rain	33	Budapest	shower	29	Dubai	sun	39	Honolulu	fair	32	Milan	thund	24	Strasbourg	rain	19
Barcelona	fair	27	C.hagen	fair	16	Dublin	cloudy	15	Istanbul	sun	29	Montreal	fair	23	Sydney	fair	24
			Cairo	sun	34	Dubrovnik	sun	29	Jakarta	fair	31	Moscow	cloudy	18	Tangier	fair	23
			Cape Town	shower	17	Edinburgh	rain	13	Jersey	shower	16	Munich	shower	21	Tel Aviv	sun	35
									Karachi	fair	33	Nairobi	fair	25	Tokyo	cloudy	29
									Kuwait	sun	43	Naples	sun	31	Toronto	fair	23
									L. Angeles	fair	22	Nassau	fair	31	Vancouver	shower	19
									Las Palmas	sun	27	New York	thund	28	Venice	fair	26
									Lima	cloudy	19	Nice	sun	25	Vienna	fair	27
									Lisbon	shower	20	Nicosia	sun	37	Warsaw	shower	25
									London	fair	18	Oslo	fair	15	Washington	fair	29
									Lux.bourg	shower	17	Paris	shower	20	Wellington	shower	9
									Lyon	thund	20	Perth	fair	23	Winnipeg	shower	21
									Madeira	fair	25	Prague	shower	21	Zurich	rain	18

FINANCIAL TIMES
COMPANIES & MARKETS
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IN BRIEF

Czech fund aims to raise $45m

Oppenheimer & Co, the New York investment bank, and Nikko Securities International are expected next week to launch an investment fund to invest mainly in companies in the Czech Republic. Page 24

Digital seeks to ease fears
Digital Equipment, the troubled US computer manufacturer, plans to announce a comprehensive new technology strategy within two months. It aims to reassure customers and financial analysts. Page 27

Divided family votes on McCain
Feuding members of the Canadian McCain family are due to take important decisions on the future of the multinational frozen foodmaker today. Page 26

Hoyts sells cinema side
A consortium led by Hellmann & Friedman Capital Partners, a US investment banking firm, is to buy the cinema interests of the privately-owned Hoyts entertainments company, which has theatres in Australia, New Zealand and the US. Page 29

European bankers' face daunting prospect
The possibility that a move to European Monetary Union (EMU) could cost large European banks at least Ecu100m (£79.3m) each is the most daunting conclusion of research carried out by the Ecu Banking Association. Page 29

Coles Myers denies buy-out hitch
Coles Myers, one of Australia's largest retailers, has moved quickly in an attempt to quash suggestions that its planned buy-out of the 21.45 per stake in its equity currently held by Kmart, the US stores group, was running into shareholder opposition. Page 29

Telstra beats Australian record
Telstra, the state-owned Australian telecommunications group, made a profit of A$1.7m (US$1.3m) in the year to end-June, a sharp increase on the A$904.8m in the previous 12 months. Page 29

Bardon granted new loan facility
Bardon Group, the UK and US aggregates and ready mix concrete company yesterday announced details of a large new loan facility as it published its first profits for 2½ years. Page 32

Singer & Friedlander advances 12%
Singer & Friedlander, the UK diversified merchant banking group, reported a 12 per cent increase in interim pre-tax profits boosted by significant growth in its investment banking operations. Page 33

British Polythene announces price rises
British Polythene Industries, Europe's largest polythene film producer, announced an average 15 per cent increase in industrial and retail product prices. Page 31

Dewhirst doubles to £7m
Dewhirst Group, the UK supplier of clothing to Marks and Spencer, the high street retailer, announced profits had doubled to £7m. Page 31

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Chief price changes yesterday

FRANKFURT (DM)				Cr Foncier	890	+	15
Falls				EBF	983	+	22
Altana	670	−	10	**Falls**			
BMW	810	−	14	Cred Lyon	446	−	10.2
Daimler Benz	824	−	16	Docks de France	786	−	12
Holzmann	870	−	12	Geophysique	523	−	32
Porsche	801	−	24	**TOKYO (Yen)**			
VEW	380	−	10	**Rises**			
NEW YORK ($)				Nippon Steel	375	+	5
Rises				Rohm	4260	+	80
Borden	13¾	+	2¼	**Falls**			
GenCare Health	46	+	6½	Daiwa Trust	1620	−	400
Woolworth	18¼	+	¼	Ind Bank Japan	2930	−	40
Falls				Sumitomo Bake	881	−	26
Caterpillar	54¼	−	1¼	Tokyo B'casting	1570	−	10
MWL	30	−	1¼				
USLCO	20¼	−	1				
PARIS (FFr)							
Rises							
Canal Plus	928	+	13				

New York prices at 12.30.

LONDON (Pence)				Wakebourne	100	+	12
Rises				**Falls**			
British Biotech	490	+	22	Assoc Brit Ports	288	−	18
British Fittings	93	+	5	Barratt Dev	187	−	14
Fairey	399	+	16	Country Casuals	120	−	32
Forth Ports	475	+	20	Liberty	355	−	33
Kleeneze	136	+	6	Tarmac	146½	−	10
Kwik-Fit	168	+	5	Wilson Bowden	397	−	11
Magnum Power	65	+	6½				
Merivale Moore	81	+	7				
RJB Mining	391	+	19				
Sleepy Kids	58	+	3				

German group regains brand rights and extends its grasp of OTC drugs market

Bayer to pay $1bn to reclaim its name

By Christopher Parkes in Frankfurt and Daniel Green in London

Bayer is to pay $1bn to buy back the right to use its own brand name in the North American market more than 75 years after the US government seized and sold off the German group's local assets during the first world war.

The deal was announced yesterday, just two weeks after the Bayer name-and-cross emblem changed hands in the sale of Sterling Health, Eastman Kodak's over-the-counter drugs unit to the Anglo-American group SmithKline Beecham for $2.93bn.

The sale includes OTC products such as Bayer aspirin, Midol analgesics and the Milk of Magnesia indigestion treatment. These will fill out Bayer's existing US range built around Alka-Seltzer and One-A-Day and Flintstones vitamins.

Mr Manfred Schneider, Bayer's chairman, said the group's US and Canadian activities would switch to the Bayer name as soon as possible after completion of the transaction, which is subject to regulatory approval.

The purchase met two of his prime objectives: regaining the brand rights and extending Bayer's reach in the world's largest OTC medicine market.

"This is a memorable day in our corporate history," he added.

The board's analysis of the assets and purchase price did not reveal evidence of a substantial premium for the rights.

The sale brings SmithKline Beecham down from the world's biggest OTC drugs company, to number three.

The sale proceeds will help cut SmithKline Beecham's debt to less than £2.5bn. The company recently reported plans to cut debt through disposal of "non-strategic acquisitions".

"This is a non-strategic asset in that we already had the critical mass in the US," it said.

Additions from Sterling, which last year earned Eastman Kodak $43m on sales of $366m, will almost double Bayer's over-the-counter turnover in the US.

The branded aspirin business alone is estimated to generate $150m sales a year in the US, and was recently valued by analysts at about $500m. In the late 1890s, Bayer produced the first high quality acetylsalicylic acid and registered aspirin as a trademark in Germany and the US.

Bayer has focused its US drugs interests in its Miles subsidiary, which last year had sales of $6.5bn.

Bayer originally made an offer for the whole of Sterling, but was outbid by SmithKline in an auction.

After the sale, Bayer said it would seek "clarification" from Sterling's new owners of its intentions towards the trade mark rights and parts of the operating business.

Bayer extended its reach in the US market earlier this year when it paid $310m for a minority stake in Schein Pharmaceutical, a privately-owned generic drug specialist. Generics – out-of-patent products – are one of the fastest growing segments in pharmaceutical markets.

Lex, Page 22
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Brands expand

	Before the deal	After	Total sales
Analgesics	None	Bayer Aspirin, Bayer Select, Midol, Vanquish	$150m
Cough/cold	Alka Seltzer Plus	Neo-Synephrine, Bayer Select Cough and Cold, Bronchaid	$160m
Gastro-intestinal	Alka Seltzer	Phillips' Milk of Magnesia, Dairy Ease	$120m
Prevention (vitamins)	One-A-Day, Flintstones		$65m
Dermatologicals	Bactine	Campho-Phenique, Stridex	$105m
Miscellaneous			$20m
Total US sales	[illegible]		$620m
Canada	$10m		$45m

American Express seeks more takeovers

By Richard Waters in New York

American Express will continue to seek large acquisitions in the business travel market following the acquisition of parts of the Thomas Cook travel agency business for $375m.

"There are obviously large acquisition candidates out there," said Mr Roger Ballou, head of American Express's Travel Services group. "We're not ruling [anyone] out. We remain committed to building the business worldwide."

Yesterday's deal brings American Express Thomas Cook's international business travel agency operations, which had revenues of $1.1bn last year, and the combined business and leisure travel agency operations in the US, with revenues of $1.9bn.

Most of the US revenues come from the business side, Mr Ballou said. The US business is being acquired from Mr David Paresky, who has operated it under licence from Thomas Cook.

The acquisition in the US will add to American Express's leading market share there, while the non-US Thomas Cook operations give it a strong market position, particularly in Canada, Australia, Germany and the UK.

Although Mr Ballou would not comment on which countries American Express would look to next for acquisitions, the financial services group is widely expected to target Asia.

American Express added that it had begun to contact Thomas Cook's biggest corporate customers over the weekend and had received a positive response to the acquisition from all the companies it had spoken to.

It is almost certain to lose the account of rival plastic card company MasterCard, however.

Thomas Cook will retain all rights to its brand name and will invest its share of the $375m in expanding its existing travellers cheque, foreign exchange and leisure travel businesses, according to Mr Christopher Rodrigues, the company's chief executive.

Mr Rodrigues refused to comment on whether Thomas Cook would re-enter the US leisure travel market through another licensing agreement, citing commercial confidentiality.

As a subsidiary of Westdeutsche Landesbank, the German bank, it is not allowed under US laws to operate a travel business in the country directly.

CS drops bid for stake in Austrian bank

By Ian Rodger in Zurich

CS Holding, the international financial services group built around Credit Suisse, has withdrawn its offer to acquire a large minority stake in Creditanstalt-Bankverein, Austria's second largest bank.

CS said it had become increasingly difficult to discuss the merits of its proposal objectively in Austria.

"Other aspects, predominantly of a political nature, have prevailed," it said.

Austria is in the middle of a national election campaign and the future of Creditanstalt has become a divisive issue between the Conservative and Social Democratic parties, the governing coalition partners.

CS's withdrawal comes only a week after the Austrian government engaged the New York investment bank J.P. Morgan to review bids for part of its 70 per cent voting stake in Creditanstalt.

J.P. Morgan is a main rival of First Boston, a subsidiary of CS, in global investment banking markets.

Mr Ferdinand Lacina, the Austrian finance minister who had initially been a strong supporter of the CS bid, has recently appeared to distance himself from it, falling in line with other Social Democratic party leaders who say that Austrian influence in Creditanstalt must be maintained.

Mr Lacina said he regretted the withdrawal of CS. The Swiss group's offer would have provided a sensible international solution for Creditanstalt. But CS's move was understandable in the light of the opposition of Austrian Conservative forces, he said.

This opposition crystallised in June when Mr Rainer Gut, CS chairman, told an Austrian business magazine that CS would like ultimately to own 100 per cent of Creditanstalt.

The CS withdrawal leaves the future of Creditanstalt uncertain. A large consortium formed mainly from Austrian Conservative business circles to counter CS's bid last spring could fall apart now that the threat of a foreign takeover has disappeared.

If so, the finance minister would be left with no concrete bids to consider. Allianz, the German insurance group, has indicated an interest but would probably face similar opposition to that faced by CS if it made a formal offer.

For several years the government has been committed to selling its remaining stake in Creditanstalt. In the early 1990s, the bank's poor performance damped interest from potential strategic partners and institutional investors.

Last year, Mr Lacina rejected a merger bid from the Raiffeisen group of rural banking co-operatives as ill-founded, and refused an offer from an investment banking syndicate to place the shares widely in international equity markets.

Flag still flies, Page 24

Managing director quits after dispute over future of luxury hotels group

Board forces Shepard to check out of Savoy

By Michael Skapinker in London

Mr Giles Shepard yesterday resigned as managing director of the Savoy Hotel group, saying he had been asked to go because he did not agree with proposals for the future management of the company. His resignation was widely expected, after rows last week with Sir Anthony Tuke, the Savoy chairman, and Sir Michael Richardson, a Savoy director.

The board meets today to discuss a replacement. Mr Ramon Pajares, general manager of London's Four Seasons hotel, has been approached to take the job.

Mr Shepard said yesterday: "Over the past few months, discussions have taken place between our major shareholders regarding the future of the company, its management and its organisation. I have not found myself able to concur with what is proposed. Accordingly, I have been asked to resign.

"Because of my love for the Savoy company and my immense admiration for the staff, who have supported me so loyally during my 15 years as managing director, and to avoid further damaging speculation in the press, I have decided to follow this course of action."

Mr Shepard has been under pressure for some time, largely because of the poor financial performance of the group, which last year halved its dividend.

His position became unsustainable last week when he issued a statement on behalf of the Savoy board criticising a non-executive director for leaking a document to the press. The statement, which was not authorised by the board, was seen as a criticism of Sir Michael, who denied leaking the document. Sir Michael was supported by Sir Anthony.

The Savoy board is expected to announce today that Sir Anthony, who wishes to retire, is to be succeeded by Sir Ewen Fergusson, chairman of Coutts, the private bank, and a Savoy director since July last year.

Directors caution, however, that Sir Ewen's appointment cannot be taken for granted; previous widely-tipped candidates for the chairmanship have not won board approval. If he is approved, his appointment is unlikely to be temporary. Reports that Sir Ewen will be succeeded by a chairmanship rotating between Savoy loyalists and representatives of the Forte group have been dismissed by board members. The board meeting is expected to give Forte, which has 68 per cent of Savoy's shares but only 42 per cent of the vote, some form of participation in management. However, plans to merge Forte luxury hotels with the Savoy's properties – which include the Savoy, Claridge's and the Connaught – are believed to have been dropped.


Trevor Humphries
Shepard: resignation was widely expected

Forte expected to beat Accor for Meridien hotels

By John Ridding in Paris and Michael Skapinker in London

Forte, the UK hotels and restaurants group, is favoured to win its long-running battle with Accor of France to gain control of Meridien, the luxury hotels chain owned by Air France. The state-owned airline is expected to make an announcement on Wednesday.

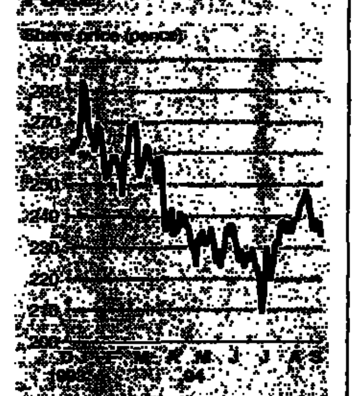
Hotel industry observers in London, however, were cautioning yesterday against excessive optimism on Forte's behalf. They point out that Accor has used its political influence in France to postpone a Forte victory in the past.

Accor lobbyists are believed to have stepped up their activities over the past few days, arguing for the chain to remain in French hands. "We know they're going like fury," one UK industry observer said yesterday.

Air France declined to comment on the sale of a controlling stake in Meridien, ahead of Wednesday's board meeting. But officials confirmed that a decision had been taken and that it had been based on the size of the relative offers. Forte's offer values the hotel chain chain at FFr1.9bn ($360m) while Accor's offer is thought to value the company at FFr1.7bn.

Both offers represent an increase of FFr100m since the bids were first tabled in April. A decision on the bids was delayed, after Accor lobbied the centre-right government of French prime minister Mr Edouard Balladur.

Finance for Accor's offer is being provided by Prince Al-Waleed Bin Talaal of Saudi Arabia. It is understood that the eventual winner's bid would be reduced if Meridien lost a significant number of hotel management contracts as a result of a change of ownership.



Air France, which is seeking to reduce its debt burden as part of a rescue package, is expected to sell the majority of its 57 per cent stake in the hotels chain. The European Commission has ordered the completion of the sale by the end of this year as a condition for a French state capital injection of FFr20bn for the lossmaking airline.

Meridien's management has expressed its preference for the bid from Forte. But some unions at the hotel chain are opposed to the sale and are planning a demonstration at Air France today in protest at the move.

The Meridien group, which comprises 58 hotels, fell into loss last year. The company blamed the losses, which totalled FFr29.7m, on difficult market conditions, particularly in its French operations.

INTERNATIONAL COMPANIES AND FINANCE

Oppenheimer and Nikko Securities in Czech deal

By Vincent Boland in Prague

Oppenheimer & Co, the New York investment bank, and Nikko Securities International are expected next week to launch an investment fund to invest mainly in companies in the Czech Republic.

The Czech Republic Fund, which will be listed on the New York Stock Exchange and the Osaka Securities Exchange, plans to raise at least $45m, though the final figure could be higher depending on investor demand.

The fund will have a minimum of 65 per cent of its assets invested in Czech securities, with the balance in other central European countries, including Austria, Slovakia, Hungary and Poland. The objective is long-term capital appreciation.

Shares in the fund, priced at $15 each, are expected to be offered to investors on September 20 in the US, Japan and internationally.

Quest for Value Advisors and Advantage Advisers, both part of Oppenheimer, have been appointed investment adviser and investment manager respectively to the fund. The fund's regional adviser is BAI Fondsberatung, a subsidiary of Bank Austria Investment Bank.

The Czech Republic is the main focus of investment funds targeted at emerging central European markets. Last week, the Robert Fleming-managed Czech and Slovak Investment Corporation said it was raising up to $25m dollars in additional capital for investment mainly in Czech securities.

The country is the only post-communist country to win an investment grade rating from Moody's and Standard & Poor's.

Hermès rises 56% to FFr85m

By Alice Rawsthorn in Paris

Hermès, one of France's leading luxury goods groups, yesterday announced a 56 per cent increase in interim net profits to FFr85.1m ($15.87m) in the first six months of 1994 from FFr54.6m in the same period of last year.

The news of healthy first-half profits growth from Hermès, which last year ended decades of family dominance by floating on the French secondary market, continues the positive trend in the luxury goods sector.

The industry was hit by the economic recession of the early 1990s but has staged a sharp resurgence since last autumn.

LVMH, another famous name in French luxury goods, last week reported strong profits growth of 35 per cent to FFr1.26bn during the first half of this year.

The only negative note among the large luxury groups was struck on Friday by Asprey, the London-based business specialising in super-rich clients, which issued a profits warning because customers have spent less.

Hermès, which has a broader customer base at the upper end of the luxury market, was relatively resilient to the recession.

It has reflected the industry's recent recovery by mustering a higher rate of profits growth in the first half.

Sales rose 24.3 per cent to FFr1.53bn during the interim period from FFr1.23bn at the same time last year. Operating profits increased 47.8 per cent to FFr220m from FFr148.8m. The group said it anticipated continued growth in sales and profits for the full financial year.

Swire buys holding in Carlsberg HK brewery

By Hilary Barnes in Copenhagen

Swire Pacific, the Hong Kong conglomerate, has acquired a 39.2 per cent stake in Carlsberg Brewery Hong Kong, formerly a joint venture between Carlsberg, the Danish brewery group, and the East Asiatic Company, the Danish-based trading group with interests in the Asia-Pacific region.

The Hong Kong brewer has also signed a memorandum of understanding to acquire a 99 per cent share in Huizhou Brewing Company, in China's Guangdong province.

"The new agreements, and not least the co-operation with the Swire Group, will contribute to our prospects of continued growth, especially in China," said Mr Poul Svanholm, Carlsberg's chief executive.

"The China potential is considerable, but it is also a very demanding task which initially requires quite substantial investments, *inter alia* in marketing and distribution. Satisfactory levels of profitability can hardly be expected in the immediate future," he added.

The East Asiatic Company, which is restructuring after suffering heavy losses in recent years, will reduce its half share in the Hong Kong brewery to 20 per cent, with Carlsberg owning 40.8 per cent and Swire 39.2 per cent.

The financial details of this deal and the acquisition of Huizhou Brewery were not released.

The Carlsberg parent has turnover of about DKr16bn ($250m) and beer sales total about 27m hectolitres, of which 22m are sold outside Denmark.

Production by the Hong Kong brewery is about 48m litres, sold mainly in Hong Kong and Singapore, with Carlsberg claiming an 18 per cent share of both these markets.

The Huizhou Brewery, which was founded by the Australian Bond Group and has been bought from Tomson Group, listed in Hong Kong, has production capacity of about 60m litres.

Flag still flies over Austrian bank

CS did not expect such a strong nationalistic reaction, writes **Ian Rodger**

The leading trend in banking may be globalisation, but nationalistic sentiment still counts for a lot, even in advanced industrialised countries.

That is probably the main message from the aborted attempt by CS Holding, the international financial services group built around Credit Suisse, to take over Creditanstalt, Austria's second largest bank.

The Swiss knew they were sticking their noses into a political quagmire when they ventured into Austria, but did not expect such a strong nationalistic reaction.

The tone was set in mid-May shortly after Mr Rainer Gut, CS chairman, had made known that the Swiss group was interested in a large part of the Austrian government's 70 per cent voting stake in the bank.

"We would be the only leading commercial bank in the developed world that would be controlled from abroad," moaned Mr Guido Schmidt-Chiari, chief executive of Creditanstalt. In response, Mr Gut could only point to the Hongkong and Shanghai Bank's control of Midland Bank of the UK.

In the subsequent three months, no one in Austria or anywhere else has made any serious criticism of the commercial logic of CS taking over Creditanstalt. Mr Gut said CS would have maintained the bank's Austrian identity and it would have brought better access to global financial markets.

However, even at the highest levels of Austria's business community, the idea of Creditanstalt, the bank that financed the industrial development of the Austro-Hungarian empire, being taken over by a foreigner, stuck in the throat. When Mr Gut said CS wanted ultimately to control 100 per cent of Creditanstalt, Mrs Maria Schaumayer, president of the Austrian National Bank, declared solemnly: "Creditanstalt must fly under the Austrian and not the Swiss flag." A week later, an unlikely combination of Austrian, German and Italian banks and companies put together a counter-bid.

The Austrians do resent the Swiss, finding it difficult to accept that their Alpine neighbours, so similar in many ways, are so much more successful in international business. But Austrian bankers admit that a bid from a big UK or German bank would have had the same reception.

Initially, this nationalistic response was camouflaged by the workings of partisan politics in Austrian banking. Because the country has long been run by a coalition of Conservatives and Social Democrats, the leading financial institutions of each tendency share in government and government-influenced business.

Creditanstalt is the flag bearer for Austria's Conservative party banks. But if it were sold to CS, it would be out of the loop, and most of the government's largesse could be directed to arch-rival Bank Austria, the Socialists' bank. Therefore, the initial opposition to the CS bid came from Conservatives.

Although it was aware of this possibility, CS argued privately that the government could not consistently resist putting business Creditanstalt's way if, under CS direction, it made increasingly competitive and attractive offers. It was also widely thought that Mr Lacina, who was initially enthusiastic in his support for the CS bid, shared this view. Indeed, he probably saw it as a way to begin depoliticising the banking sector.

Nationalistic currents soon infected the Socialist party as well. In late June, Mr Helmut Zilk, the mayor of Vienna, said: "Any other solution would be better than CS".

Mr Lacina, who originally said he would make a decision before summer, announced in July that he would appoint a consultant to review the bids.

It was widely understood that this meant nothing would be decided until after national elections due in October. But supporters of the CS cause took comfort from the thought that the Conservatives would likely lose a lot of ground in the election, making it easier for the Social Democrats to sell Creditanstalt to CS.

Then last month, Mr Kurt Heindl, the powerful trade spokesman for the Social Democrats, said the government must maintain a golden share or some other means of domestic control over Creditanstalt. More recently, Mr Viktor Klima, the Socialist transport minister, said it was important to have privatised banks controlled within Austria.

Mr Lacina, suddenly alone, began to backtrack, saying two weeks ago that an Austrian influence in the bank had to be guaranteed. Then, a month later than planned, he appointed a consultant to assess the bids.

CS said yesterday the appointment of J.P. Morgan did not have much to do with its decision. "We always knew someone would be appointed, and it pretty well had to be a competitor," CS said.

CS said the group had no regrets about making clear its desire ultimately to buy 100 per cent of Creditanstalt. "It was honest," it said.

Dalgety held to 7% pre-tax advance

By Roderick Oram, Consumer Industries Editor

Lower UK crisp prices and over-supply in continental pigs held Dalgety, the UK food and agribusiness group, to a 7 per cent rise in pre-tax profits to £120.1m ($186.2m) for the year to June 30.

Without these setbacks, operating profits from continuing operations would have risen about 10 per cent, Mr Richard Clothier, chief executive, said. They fell 4 per cent to £124.9m, although acquisitions contributed a further £9.6m to leave the group modestly ahead.

With both markets expected to show tentative signs of recovery this year, however, Dalgety raised its full-year dividend by 3 per cent to 21.15p a share and said it would seek more acquisitions in continental Europe. It is focusing on food ingredients and pet foods in continental Europe while concentrating its consumer foods efforts on the UK, where it has strong brands such as Golden Wonder Crisps.

In line with that strategy it said yesterday was selling its Dutch savoury snack business to United Biscuits for £21m.

The UK crisp market enjoyed volume growth over the past year but wholesale prices have fallen by at least 5 per cent, analysts estimate. Supermarkets have exploited excess capacity, persuading manufacturers to produce own-label snacks at low prices.

Despite the pressures, Dalgety's Golden Wonder products increased their market share to 18 per cent. Further cost cuts was the key to improving profitability, Mr Clothier said.

Operating profits from foods fell 13 per cent to £57.4m despite good performances from sauces and Spillers pet foods. The latter was boosted by the acquisition of Paragon from British Petroleum.

Agribusiness operating profits rose 8 per cent to £34.8m. An animal feed acquisition and a 24 per cent increase in US sales by Dalgety's Pig Improvement Company offset pig problems in Europe.

Food ingredients lifted operating profits by 49 per cent to £57.4m due to improved flour milling and acquisitions.

Food distribution in the US reported a 15 per cent increase in operating profits to £16.4m.

Group turnover rose 11 per cent to £4.99bn, with acquisitions contributing four percentage points of the growth. Pre-tax profit of £120.1m was struck after a £2.8m charge for the settlement of insurance claims. The 1992-93 figure of £112.2m included a £9m provision for the same reason. Including the charges, earnings per share were 36.7p against 35.7p.

Acquisitions totalling £85m pushed up net debt to £127m from £49m and gearing to 33 per cent from 12 per cent.

Lex, Page 22;
Sale to UB, Page 33

INTERNATIONAL COMPANIES AND FINANCE

Echenique steps down as chief of Santander

Banco Santander, the Spanish bank, has accepted the resignation of Mr Rodrigo Echenique, the chief executive, as part of wider management changes at the bank, AFX reports from Madrid.

The bank said Mr Echenique, who also headed its brokerage arm Banco Santander de Negocios, would remain on the bank's board. It offered no reason for his resignation.

Santander said Ms Ana Patricia Botin will replace Mr Echenique as chief executive of its brokerage arm and will also become a general director of the bank. It did not refer to the vacant post of chief executive.

The bank has named Mr Juan Rodriguez Inciarte as its director responsible for finance, which includes management of the group's treasury, capital markets and investment fund operations.

Dealers said the changes at the bank's treasury and capital markets were widely expected after these divisions posted large first-half losses.

Santander said it had appointed Mr Matias Rodriguez Inciarte as its second vice-president, responsible for retail banking, human resources and planning.

Mr Casto de la Mora Mata has been appointed director responsible for retail banking division, while Mr Jose Antonio Villasante del Cerro will replace him as head of Santander's Madrid operations.

Time Warner in cable venture

Time Warner Cable, part of Time Warner, the US entertainment group, has signed an agreement with Advance Publications and Newhouse Broadcasting to create a new joint venture cable operation, Reuter reports from New York.

The venture, called Time Warner Entertainment-Advance/Newhouse, will enlarge existing cable clusters already owned by the three partners in North Carolina, Florida and New York.

Divided family votes on the future of McCain

By Bernard Simon in Toronto

Sparks are certain to fly today at a shareholders meeting of McCain Foods, at which members of New Brunswick's feuding McCain family are due to take important decisions on the future of the multinational frozen foods maker.

Family members are expected to vote on a proposal to oust Mr Wallace McCain as joint chief executive, leaving his older brother Harrison as sole chief executive pending the appointment of an outsider to head the company. The two brothers would continue as non-executive chairman and deputy chairman.

Wallace has strongly resisted the move. He has proposed that the McCain family should instead spin off part of the company to the public, and that he and Harrison should step down at the same time.

Wallace yesterday asked a New Brunswick court to endorse his strategy.

Although McCain is a private company, members of the family have increasingly vented their anger through public court documents, press releases and leaked letters.

Wallace alleged in an affidavit submitted to yesterday's court hearing that none of the second-generation family members who comprise the board of McCain Foods holding company has "the character, ability, business experience, judgment or acumen to direct and manage (its) affairs."

He alleged that McCain's extensive UK and European activities, which are under Harrison's control, are performing poorly, compared to the North American and Australasian operations, which are under his own control.

According to the affidavit, the European businesses suffered a loss in July "for the first time in many years".

One leaked document has revealed that McCain posted profits of C$84.3m (US$61.6m) last year on worldwide sales of C$2.7bn. But Mr Harrison McCain said in a memo to employees last week that "all the shareholders, except Wallace's family, think that Wallace and I . . . should make way for a new, independent CEO who will run the company professionally and well . . . When that it is done, I believe we will have much more peace and quiet."

Wallace, Harrison and their respective families each own one third of McCain Foods, with the remaining third split between the children of their two deceased brothers. One issue that has arisen in the search for an outside chief executive is whether the newcomer will be willing to keep McCain's head office in the picturesque hamlet of Florenceville, New Brunswick, where Harrison and Wallace McCain built their first potato processing plant in 1956.

Harrison McCain stressed the importance of finding the best candidates for the job, "not just the ones who agree with restrictions imposed on them beforehand". However, he indicated that his opposition to taking the company public was partly based on a fear that control might eventually pass to faraway institutional shareholders with little interest in maintaining the links with Florenceville.

Blocked bank bid leaves bruises all round

Few emerge with credit from BCP's unsuccessful attempt to win BPA, says Peter Wise

No one has emerged from the battle for Banco Português do Atlântico with a convincing victory. Banco Comercial Português, whose hostile bid for Portugal's second largest bank has been vetoed by the government, is the most prominent loser.

But little glory has attached to the other main forces in the struggle.

BCP, which has earned a reputation for almost flawless management since it was founded in 1985, will suffer for its political misjudgement.

The government has sullied its pro-market credentials. BPA's management is under fire for lacking direction and the soundness of the relationship between core shareholders and the bank has been called into question.

As for the securities exchange commission (CMVM), it has been exposed as slow-moving and hampered by bureaucratic regulations.

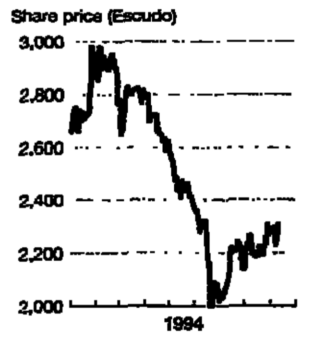
Portugal's capital markets will not benefit from the badly-needed boost expected from BCP's Es132bn ($838m) offer for 40 per cent of BPA.

In addition, traders fear the international image of the Lisbon market may have been damaged by the six-week process that culminated with a government decision to block the bid.

BPA shareholders have been the first to suffer. Shares fell to

BCP

Share price (Escudo)



Source: Datastream

Es2,260 at the close yesterday, the first day of trading since they were suspended by the CMVM on August 10. After BCP announced its offer of Es3,000 a share on July 26, the shares had climbed 31.8 per cent to Es2,650 before they were suspended out of concern that a disorderly market could develop. BCP shares also closed at Es2,260 yesterday, down 1.74 points from Friday.

Lisbon dealers said the CMVM's long suspension of BPA shares had prevented small shareholders from taking advantage of their first opportunity for making gains since the bank began to be privatised in 1990. They fear the bid has shown Portugal's capital markets to be burdened with an overly bureaucratic regulatory framework that could deter foreign investors.

BCP was putting on a brave face yesterday. Mr Jorge Jardim Gonçalves, chairman, said the bank's determination to expand remained unaltered. But it is not clear where he will look next.

The government decision has left BCP, Portugal's fifth largest bank, still straining at the leash. Unable to build a market share consonant with its strong capital accumulation through organic growth alone, it has been trying to expand by acquisition. But the finance ministry has so far blocked its every move.

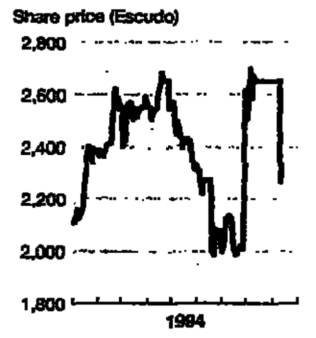
In January, the government rejected BCP's bid for Banco Pinto e Sotto Mayor, the sixth-ranked bank, as too low. A second attempt to privatise BPSM will be made later this year. But Mr Jardim Gonçalves said yesterday BCP was no longer interested.

BCP control of BPA would have increased its market share from 9.5 per cent to 24 per cent in a single blow. BCP will now have to resign itself to more gradual expansion, either by redirecting its sights on smaller takeover targets or by starting a new banking operation, its eighth, from scratch.

The expansion envisaged by BCP is of the kind often promoted by the centre-right government of prime minister Anibal Cavaco Silva, who regularly expresses support for the building of strong Portuguese

BPA

Share price (Escudo)



Source: FT Graphite

companies able to compete at a European level.

The government's decision that a BCP takeover of BPA could destabilise the financial system has drawn strong criticism from a majority of Lisbon analysts and opposition parties. They say the veto is an unwelcome interference in the free operation of the market and a brake on the capacity of Portuguese banks to gain critical mass.

The government's other main argument is that BCP's planned acquisition would have perturbed the privatisation strategy mapped out for BPA. The state still owns 24.5 per cent. BPA's core shareholders, a group of 13 Portuguese companies that owns 28.7 per cent, say the government has made an unwritten commitment to keep them in control after the final stage of privatisation, for which no date has been set.

Praise may be due to the government for keeping faith with the core shareholders and sticking to a pledge to disperse BPA's capital widely among small investors. But BCP's bid has indicated the uncertainties to which the protracted privatisation of BPA and other banks has exposed Portugal's financial system. Rival bids from BCP and BPA's main shareholders for the remaining state holding would also have almost certainly increased the value of the stake.

BPA's management has the most reasons to toast the government decision. It has survived – but far from unscathed. BCP's offer has shown the management team of Mr João Oliveira, chairman, to have been slow in implementing a strategic restructuring of the bank.

BCP supporters claim the core shareholders tolerated relatively passive management in return for favourable treatment. Whether or not this is true, the core shareholders will now press hard for more aggressive management. They are expected to nominate eight non-executive board members at an extraordinary meeting on October 6, when the board will be expanded from seven to 15 members. The core shareholders are not currently represented.

Digital seeks to ease fears over its future

By Alan Cane in Barcelona

Digital Equipment, the troubled US computer manufacturer, plans to announce a comprehensive new technology strategy within two months.

The aim is to reassure customers and financial analysts concerned about the group's future in the light of four consecutive years of losses.

For the fiscal year to end-June 1994, the company reported net losses of $2.16bn after restructuring charges, against a fiscal 1993 loss of $251m, and revenues of $13.4m, down 6 per cent on 1993.

The plan will complement the restructuring strategy put in place earlier this year by Mr Robert Palmer, chief executive, which is expected to lead to some 20,000 job losses, reducing the workforce to less than 60,000 people.

Mr Enrico Pesatori, head of the computer systems division which is the largest part of Digital's operations, said that the new strategy would be made public by the middle of November.

The chief element is expected to centre on Digital's new technology, a family of microprocessors called Alpha, generally recognised as one of the world's most powerful microprocessors. Digital has tied its future largely to the success of Alpha, but so far the chip has failed to dominate the market in the way the company had expected.

Alpha is based on reduced instruction set computing (Risc) technology and competes with similar devices from IBM, Sun Microsystems and Silicon Graphics, as well as with microprocessors sold by Intel, the leading semiconductor manufacturer.

Digital's top management agrees that the next two years will be critical for Alpha, which they accept has proved to be ahead of its time. Their worry is that their lead with Alpha will be lost as Intel improves its Cisc processors.

Last week Digital unveiled the latest Alpha processor, the first capable of carrying out 1bn instructions a second and up to five times faster than competing microprocessors.

Critics argue that the company has been rash to place so much reliance on a single technology. Mr Pesatori said, however, that sales of Alpha technology reached $1bn last year and were growing at a rate of 100 per cent a year.

Acceptance of Alpha in the market remains the main problem. Digital's recent decision to sell its stake in Olivetti has been attributed partly to the Italian company's failure to sell more Alpha-based systems.

Mr Pesatori said the company's investment in Alpha designs would carry it through to the first years of the next century while its investment in manufacturing facilities for the chip could be defrayed by alliances with other manufacturers anxious to make use of the latest process technology.

He said there had been a significant improvement in Digital's financial performance. Revenues for the current quarter were ahead of the recovery plan and he expected to break even by the end of the year. The company would be profitable by the end of the second quarter next year.

Enrico Pesatori: expects to break even by year-end

Bekaert posts sharp advance at six months

By Emma Tucker in Brussels

Consolidated profits at Bekaert, the Belgian wire and steel cord producer, leapt to BFr5.1bn ($157m) in the first six months of the year, compared with BFr951m in the same period a year ago.

The result was inflated by a capital gain of BFr3.7bn from the sale of 12.1m shares in BMA-Bridgestone Metalpha Corporation, formerly BSB. Without this, consolidated profits were BFr1.4bn, 48 per cent up over the same period in 1993.

Bekaert said the rise, excluding the capital gain, was partly due to improved economic conditions – particularly in the US – but more to "the continued internal efforts started in previous years", particularly the group's total quality management programme.

Consolidated turnover increased by 12.8 per cent to BFr31.4bn in the period, while cash flow reached BFr7.2bn, including the capital gain from the share sale. Without it, cash flow was BFr3.58bn.

Combined sales volume for the consolidated and associated companies increased by 7.9 per cent compared with the first half of 1993, but growth came entirely from the consolidated companies which lifted sales by 10.5 per cent.

Sales volume of associated companies was flat due to poor economic conditions in some Latin American countries, in particular Brazil and Venezuela. The contribution of the associated companies fell 25 per cent.

Capital spending for the consolidated companies was BFr2bn in the first half of the year, little changed from the BFr1.9bn in the same period of 1993.

An interim dividend before withholding tax of BFr134.68 per share will be paid. For the ordinary shares this represents a net dividend of BFr100 per share.

Euro Disney's Saudi rescuer may enlarge 9.65% holding

By Alice Rawsthorn in Paris

Prince Al-Waleed, the Saudi financier who earlier this year rode to the rescue of the ailing Euro Disney leisure group in its emergency financial restructuring, has emerged with a 9.65 per cent stake in the company.

The prince is expected to augment this holding, which is owned by United Saudi Commercial Bank (USCB), one of his main investment vehicles, by triggering agreements to buy additional Euro Disney shares from Walt Disney, its US parent, and Caisse des Dépôts et Consignations, the state-controlled French financial institution.

Prince Al-Waleed, a member of the Saudi royal family and one of the Middle East's most aggressive investors, stunned the stock market in early June by unveiling plans to acquire up to 24.63 per cent of Euro Disney.

He undertook to buy any shares left on the market after the FFr6bn ($1.1bn) rights issue which was a vital component of the restructuring.

Ironically, the prince's arrival boosted investor confidence and the rights issue was more heavily subscribed than many observers had expected. As a result, Prince Al-Waleed is likely to raise his stake through his agreements to buy additional shares from Walt Disney and the Caisse.

He can acquire up to 5.22 per cent of Euro Disney from the Caisse at the rights issue price of FFr10.00 per share, and is also able to buy more shares from Walt Disney, to take the USCB stake up to its 24.63 per cent ceiling.

Euro Disney is struggling to improve its performance, and there has been speculation that attendance levels at the EuroDisneyland theme park have been poor in the current financial year. The company is implementing a new marketing strategy by packaging itself as part of the Paris tourist scene. One concept is to market itself as Disneyland Paris, rather than EuroDisneyland.

United Healthcare purchase

By Richard Waters in New York

United Healthcare, one of the largest managed healthcare companies in the US, announced a $520m cash deal yesterday, the latest in a series of acquisitions aimed at expanding into new markets across the country.

United has agreed to buy GenCare Health Systems, which operates in St Louis, Missouri, with revenues last year of $197m.

The purchase is being made with part of the $2.3bn United received from the sale of its pharmacy benefit management company, Diversified Pharmaceutical Services, to SmithKline Beecham earlier this year.

The company made clear at the time that it planned to use the money to continue buying regional healthcare companies.

At the end of June, United had $2.6bn of cash and securities, giving it the resources to accelerate its acquisition programme. Earlier this year it made two all-stock acquisitions, worth around $900m at yesterday's market price.

GenCare operates managed healthcare programmes in St Louis, including health maintenance organisations, with 194,000 members; preferred provider organisations, with 98,000 members; a workers' compensation plan covering 41,000 people; and a dental programme with 31,400.

The consolidation of the managed care industry is rapidly throwing up a small number of big companies with the power to negotiate lower prices from hospital groups, drugs companies and other healthcare providers.

In early trading GenCare's shares jumped by $6⅞ on the news, to $45⅞, while United Healthcare's shares slipped by $⅜ to $53⅞.

US paper group may raise $700m in sell-off

By Laurie Morse in Chicago

Kimberly-Clark, the US paper group best known for its branded tissue products, plans to dispose of its pulp and newsprint businesses. Analysts said the potential sale or spin-off of the commodity operations could raise as much as $700m.

The company is evaluating the options for divesting a pulp mill in Terrace Bay, Ontario, and its pulp and newsprint mill in Coosa Pines, Alabama. It said it was considering both a sale and an initial public stock offering.

Kimberly-Clark's pulp and paper operations supply the company with its raw paper materials. They have been sluggish performers during a prolonged recession in pulp and paper prices, but the pulp and newsprint markets have seen a sharp price rebound.

The sale of the Coosa and Terrace Bay operations would enable Kimberly-Clark to focus on global expansion of its consumer products businesses. It is a strong competitor to Procter & Gamble for branded personal paper products in the US, but has a smaller overseas presence.

Last year the company formed new subsidiaries or joint ventures to manufacture and market consumer products in Argentina, Venezuela, China, Indonesia, India and the Middle East.

INTL COMPANIES AND CAPITAL MARKETS

Europe faces Ecu100m bank charge

The cost may be only one of many disruptions caused by a move to monetary union, writes John Gapper

The possibility that a move to European monetary union (Emu) could cost large European banks at least Ecu100m ($82m) each is the most daunting conclusion of research carried out by the Ecu Banking Association. But the cost is only one of many disruptions faced by banks moving to Emu.

As the study points out, the effect on banks of moving to monetary union is comparable to large scale deregulation. It will involve massive technical changes, elimination of some markets and the growth of others, and large changes to banks' funding methods and strategy for European operations.

Furthermore, banks in the core group of European countries that move to monetary union by the turn of the century may be in a better position than those outside. Exclusion from Emu could raise funding costs, lower credit ratings and form a large hurdle to operating efficiency.

Given this large list of obstacles, it appears surprising at first that bankers involved in the study group should have emphasised their enthusiasm for the idea yesterday. But the report concludes that banks could gain comparative advantage by embracing the idea quickly and comprehensively.

A move to monetary union could challenge traditional methods of banking in Europe in a number of ways:

- Foreign exchange trading among different European countries will disappear, wiping out an important source of income not only from cash markets but also sales of financial derivatives to hedge currency risks. In their place will be put a larger market for exchange of Ecu with dollars and yen.
- Correspondent banking – in which banks have partners in other countries to perform payment transactions in local currency – will be replaced by bilateral or multilateral payment arrangements in Ecu. This could affect traditional profits from fees, and "float" income on cash sums.
- Local money markets, bond markets and credit markets, which are supported by local payment and settlement services will be replaced by an Emu-sized market, bound by one currency. This will change the scale at which many banks operate, forcing them to re-define operations.
- Retail banks will have to restate historical data on customer accounts in Ecu after monetary union, as well as altering technology and producing new transfer forms and cheque books. They will also have to make big changes to comply with alterations in clearing systems.

The transition costs will be higher if governments avoid a "big bang" approach in which currencies within monetary union disappear – perhaps over a weekend. If they choose to allow a "dual currency" system with local currencies running alongside the Ecu for a time, costs would be higher.

Bankers yesterday pointed out that costs of transition could vary considerably depending on the legislative approach. For example, if European legislation allows all outstanding loans to be restated in Ecu rather than being individually re-negotiated, it avoids large one-off costs.

Yet the banks within monetary union will at least be able to comfort themselves that most costs are transitional, and that they may be able to exert a competitive advantage on outsiders after union. The most worrying fate faces banks whose currency is excluded from the union.

A study of the impact on banks in countries outside Emu, prepared by Mr Jaun Moro of Banco Bilbao Vizcaya, argues that such banks will suffer competitive disadvantage in lacking a stable Ecu funding base. This will compress their margins if they lend at similar spreads to Emu-based banks.

Mr Moro argued that banks from non-integrated countries risk being downgraded by credit rating agencies because they are exposed to "second tier currencies". They will also have to use "massive amounts of hard currency" as an alternative to their domestic currency, so raising their costs.

This could have considerable implications for large banks in countries such as the UK, Ireland and Denmark which could be left behind in the initial move to monetary union. UK banks with large cross-border businesses, such as NatWest and Barclays, could be severely affected.

Mr Olivier Mas, chairman of the association, emphasised that banks are likely to be impelled to start thinking of the Ecu area as their domestic market. This is likely to lead to a re-consideration of cross-border partnerships, particularly on payment systems.

As Mr Mas said, London is the leading centre for Ecu clearing in Europe despite the UK government's attitude to monetary union. Yet UK banks could face difficulties in maintaining their grip on Ecu clearing and financial markets if they were operating sterling as a dual currency.

This could lead to Emu changing the balance of power among banks that want to be forces in Europe. Those from non-Emu countries would have to fight harder against those which would gain funding advantages, and the backing of the hardest currency.

Telstra turns in record A$1.7bn

By Nikki Tait in Sydney

Telstra, the state-owned Australian telecommunications group which is known as Telecom in its own country, made a profit of A$1.7bn (US$1.3bn) in the year to end-June, a sharp increase on the A$904.8m of the previous 12 months, and a record for any Australian corporation.

Revenues were 5.6 per cent higher at A$13.4bn.

Part of the improvement was due to a reduction in abnormal items – down to A$277.4m from almost A$500m, and a fall in interest charges to A$748m from A$921m a year ago.

However, Telstra also said that earnings before interest and tax had increased by 13.2 per cent, in spite of increasing competition as the Australian telecommunications market is opened up and Telstra's monopoly dismantled.

The return on equity, before abnormals, was 18.3 per cent, "in line with other successful world telecommunications companies".

In spite of the figures, Mr Frank Blount, Telstra's American chief executive, made clear that he expected competition to intensify and indicated that the group – much criticised in the past for its poor service levels – had further to go in reaching the highest international standards. "We are not there yet, and we cannot afford to relax for a moment," he said.

He declined to be drawn on the debate about the possible privatisation of Telstra.

"It's a matter for the shareholder," he said, noting that the federal government has said that such a move "is not on the agenda in the term of this government".

However, Mr Blount said he welcomed last week's final break-up of the "PMT" consortium – the alliance of Telecom, Mr Rupert Murdoch and Mr Kerry Packer – which was formed to pursue pay-TV opportunities in Australia.

This freed Telstra to pursue other alliances, he indicated. "We're talking to other programming and content people and services providers. We have discussions going with at two or three parties in Australia and some that are not in Australia," he said.

Hoyts sells cinema side to US-led consortium

By Nikki Tait and agencies

A consortium led by Hellmann & Friedman Capital Partners, a US investment banking firm, is to buy the cinema interests of the privately-owned Hoyts entertainments company, which has theatres in Australia, New Zealand and the US.

No purchase price for the Australian group, owned by the Melbourne-based Fink family, has been revealed, although a spokesman for the US firm suggested it might be as high as A$500m (US$372m).

The sale supersedes plans to float the Hoyts business on the stock market. These were announced in June, when Hoyts indicated that it was hoping to raise about A$400m. At the time, Mr David Clarke, the company's chairman, suggested that the group might consider expansion into south-east Asia, particularly China. South America, and the Mexican market in particular, could also offer new opportunities, he added.

In a statement yesterday, Hellmann & Friedman indicated that it supported this assessment: "A well-capitalised Hoyts has exciting expansion opportunities in its existing markets as well as in Asia and Latin America," it said.

Hoyts claims to be the 10th largest US cinema operator, with 79 cinemas – mainly on the east coast – and 519 screens. In Australia, it is the third largest operator, taking about a quarter of the country's box-office receipts.

The Fink family has owned the chain since 1985, and had planned to retain a small interest in the business. At the time of the flotation announcement, it was said that Hoyts' earnings before depreciation, interest and tax were expected to be some A$63m in the 1994 financial year.

Coles Myers denies buy-out hitch

By Nikki Tait

Coles Myers, one of Australia's largest retailers, has moved quickly in an attempt to quash suggestions that its planned buy-out of the 21.45 per stake in its equity currently held by Kmart, the US stores group, was running into shareholder opposition.

In a statement to the stock exchange yesterday, Coles said it had received almost 12,000 proxies, covering more than one-fifth of its shares. It said these were overwhelmingly in favour of the deal.

Coles, which is due to release its profit figures today, added that "the company's chairman and chief executive officer have recently visited many of the major institutional shareholders ... and the response to the proposed transaction ... has been consistently and overwhelmingly supportive and affirmative".

The deal comprises a direct buy-back and cancellation of just under half the Kmart stake, and the possible purchase of a Kmart subsidiary which holds the remaining 11.45 per cent, with the method of disposal for these shares yet to be decided. A meeting to approve the deal has been called for September 19.

However, Coles' task of persuading shareholders to back the deal has not been made easier by its falling share price, which closed down another 12 cents at A$3.98 yesterday, compared with the A$4.55 at which the Kmart interests would be bought in.

Conversely, the fact that directors and associates own or control around 28 per cent of the equity could be to Coles' advantage.

APN in A$106m bid for Wesgo

By Our Sydney Correspondent

Australian Provincial Newspapers (APN), the chain of regional newspapers controlled by Mr Tony O'Reilly, the Irish businessman, yesterday launched a A$106m (US$79m) cash bid for Wesgo, the Australian radio company which operates stations in eastern and South Australia.

APN had picked up a 14.8 per cent stake in Wesgo on Sunday, following discussions between the two companies, and Wesgo immediately recommended the A$1.90-a-share offer when it was announced yesterday.

The radio company had been facing a rival bid from Sunshine Broadcasting Network, which valued it at about A$90m. By yesterday afternoon, however, Sunshine had sold its own stake in Wesgo to APN.

- Amcor, the Melbourne-based packaging, paper and pulp group, yesterday announced its first move into Indonesia. It will take a 55 per cent interest in Indopack Pratama, which is owned by Pakerin, a privately-owned paper and packaging company in Indonesia. Financial details were not disclosed.

Dominion Mining reduces loss for year

Dominion Mining, the Perth-based miner which earlier this year saw off a bid from Gold Mines of Australia, yesterday reported a A$52.7m (US$39.2m) loss after abnormals in the year to end-June, compared with a deficit of A$127.1m in the previous year, writes Nikki Tait.

There was a small operating profit before abnormals and tax of A$4.29m, down from A$15.1m previously.

Dominion was loss-making in the second half, which the company said was due to "insufficient operating margins" at the Cosmo Howley and Bannockburn gold mines, and high amortisation charges here, reflecting short mine lives.

The bottom-line loss for the year also reflects a A$56.8m abnormal charge, which includes a A$29.3m write-down of gold operations and a A$17.8m write-off of capitalisation exploration expenditure.

- GIO Australia, which was privatised by the New South Wales government and is one of Australia's largest general insurers, reported after-tax profits of A$126.1m for the year to end-June, up by 22.3 per cent, writes Nikki Tait.

The result, however, was aided by a reduced tax charge, and operating profit before tax rose more modestly from A$157.1m to A$163.2m.

- Berjaya, one of Malaysia's biggest conglomerates, intends to sell its 20.5 per cent stake in Star Publications, publishers of The Star, one of Malaysia's leading English-language daily newspapers, writes Kieran Cooke in Kuala Lumpur.

Star Publications also has a wide range of magazines.

Berjaya said that its stake in Star Publications would be sold for a total of M$68m (US$26.4m).

Mr Vincent Tan, head of the Berjaya group, has recently launched The Sun, an English-language daily, in Malaysia.

INTERNATIONAL CAPITAL MARKETS

Gilts rise sharply on news of higher base rates

By Martin Brice and Antonia Sharpe in London and Frank McGurty in New York

The surprise move by the UK chancellor Mr Kenneth Clarke to raise UK base rates for the first time in almost five years prompted a rise of almost one point at the long end of the UK gilt market yesterday.

The market had been falling on news of a higher than expected rise in August factory gate prices but changed tack following the news of the half-point rise in the base rate to 5¾ per cent. The change in sentiment caused gilts to outperform other European government bond markets.

"The gilt market loved it, especially given the firm comments on tax," said Mr Simon Briscoe, UK economist at S.G. Warburg. "There had been some uncertainty about policy here and the market finds this very reassuring. I would be surprised if the market didn't move ahead in the next few days."

Mr John Shepperd at Yamaichi said: "If we continue to get tight monetary and tight fiscal policy, this will leave the gilt market very well placed to outperform other European bond markets."

He added, however, that there was still the possibility of a further interest rate rise at the time of the November budget.

Mr Michael Saunders at Salomon Brothers said the UK economy was likely to continue to accelerate, despite the rate rise, and forecast that the chancellor would increase rates by another 50 basis points within the next few months. "This has strengthened his position in the markets," he said.

The yield spread between gilts and bunds narrowed from around 145 basis points on Friday to about 135 basis points yesterday.

On Liffe, the December long gilt future rose to 100⅛ in late trading, up ⅞ points on the day.

■ The timing of the rise in UK base rates caused some nervousness in continental European bond markets because it came so hard on the heels of Friday's publication of US wholesale prices.

The sharp increase in the August data had revived fears that the Federal Reserve would have to raise rates again soon to curb inflation.

GOVERNMENT BONDS

Most analysts said the UK move was another strong signal that no further interest rate cuts in Europe were likely. "The UK rate rise confirms that the interest rate cycle has turned in Europe," said Mr Andrew Bevan, international bond economist at Goldman Sachs.

Immediately after the UK rate rise, the market started speculating that Denmark would be the next country to tighten, which prompted the Danish central bank to make an official denial that it was considering such a move.

Mr Julian Jessop, international economist at Midland Global Markets, still believed that Germany would cut rates by a half-point before the end of the year.

"There is no reason for the Bundesbank to raise rates until the end of next year," he said. He added that there was no history of the Bundesbank using rate rises as pre-emptive strikes against inflation.

The Bundesbank is due to hold its regular meeting on Thursday but is not expected to announce interest rate changes. It is also likely to stick with a fixed-rate repo. "The Bundesbank wants to give a clear indication that things are on hold," said Mr Bevan.

On Liffe, the December bund future rose 0.25 points to 88.96 in moderate trading.

■ US Treasury bond prices dipped yesterday morning as traders braced themselves for today's inflation data.

By midday, the benchmark 30-year government bond was ⅛ lower at 97⅜, with the yield rising to 7.702 per cent. At the short end, the two-year note was down ⅛ at 99⅞, yielding 6.334 per cent.

In the early hours of trading an uneasy calm prevailed as dealers squared up their positions before the release of the August consumer price index this morning.

Despite a generally negative tone, prices on the long end of the yield curve started out a little firmer, in a corrective move that followed Friday's huge sell-off.

However, the session was dominated by fears of inflation, which surfaced last Friday on news of a 0.6 per cent jump in August producer prices, compared with expectations of a 0.4 per cent rise, and bonds across the board soon succumbed to the pessimism.

The market was concerned that the CPI would replicate the inflationary trend in producer prices. Before the release of the PPI, a 0.4 per cent gain in August consumer prices was forecast.

Analysts said it is likely that the intermediate and long-dated segments of the maturity range will tumble again if the figure exceeds that level, though a weaker than expected result could bring temporary relief.

Any improvement might prove short-lived, however. The market is facing a barrage of economic reports later in the week, including data on retail sales figures, industrial production and capacity utilisation.

Most observers still believe the Federal Reserve will delay its next move to tighter credit conditions until November, despite the bad news on inflation, but there are signs that confidence in that scenario is eroding.

This week's data should either confirm the consensus view or undermine it.

Lufthansa shares priced at DM160

By Antonia Sharpe

Lufthansa, the German national airline, yesterday set a subscription price of DM160 each for its 7.64m new ordinary shares, in line with market expectations. Lufthansa's shares closed at DM200 yesterday, up DM3 from Friday.

The airline will raise around DM1.2bn by offering shareholders one new share for every four held. The new shares will be provided with full dividend rights for the 1994 business year.

Last month Lufthansa said it expected to make an operating profit this year and confirmed earlier suggestions that it would resume dividend payments for the first time since 1989.

The German government will not be participating in the rights issue, thereby reducing its stake in Lufthansa from 51.4 per cent to about 41 per cent.

The 3.9m shares which the government will not be taking up will be sold to investors at home and abroad, excluding the US, via a syndicate of international banks led by Dresdner Bank.

If demand is sufficiently buoyant, the government also intends to sell 2.1m existing shares which would further reduce its stake to around 36 per cent. The price of these shares will be set on September 29. They are expected to be priced at a small discount to the prevailing market price.

The subscription period for the new shares will run from September 20 to October 4. As a result of the rights issue, the airline's ordinary share capital will increase by a nominal DM382m to DM1.9bn.

At the annual meeting in July, Lufthansa's shareholders authorised the executive board to increase the company's capital by a nominal DM515m.

"With the consent of the supervisory board, the executive board has now made partial use of this authorisation," Lufthansa said. Another rights issue is expected to take place next year.

World Bank delays global offering until next week

By Graham Bowley

The World Bank has delayed its much-anticipated $1.5bn global offering until next week due to current market volatility and holidays in Japan and the US, joint lead manager UBS said yesterday.

Syndicate managers were expecting the Bank to tap the five to 10-year area of the dollar sector this week.

"They are looking at the long end of the market and with current market volatility this is an awkward time to do it," said one syndicate manager.

Strong US producer price figures released on Friday have increased bond market nervousness about US consumer price data due today, UBS said. "With less data next week, we will get the focus of the market," said one UBS official.

INTERNATIONAL BONDS

Elsewhere in the eurobond market, activity remained subdued, with investors nervous following the rise in UK base rates and ahead of the key US CPI data today.

The $500m offering by Metropolis of Tokyo of 10-year eurobonds suffered from weakness in the dollar sector, syndicate managers said.

"Markets are nervous and investors are holding back their purchases," said one syndicate manager. "As a result, the offering has suffered a bit."

The bonds, priced to yield 32 basis points over US government bonds, were targeted mainly at Japanese institutional investors, lead manager IBJ said.

Syndicate managers described the pricing as tight; the spread widened to 35 basis points after the bonds had broken syndicate.

"The spread should have been wider but most of the paper will clear at the 34-35 level," said one manager.

Market sources said the proceeds from the offering were swapped back into yen.

France Telecom launched its first eurobond outside the French and Swiss franc sectors with a L150bn issue of three-year bonds.

Lead manager Swiss Bank Corporation reported strong demand from retail investors in the Swiss and Benelux areas and some French institutional interest. "The lira market is currently very retail-driven and offers tremendous arbitrage," said one manager.

Dresdner Bank launched a FFr2bn offering of four-year bonds, priced to yield 18 basis points over French government bonds.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book runner
US DOLLARS							
Metropolis of Tokyo	500	7.875	99.788R	Oct.2004	0.325R	+32(7¼%-04)	IBJ Intl.
Abbey National Treasury Ser.	200	7.00	99.95R	Oct.1997	0.20R	-	Goldman Sachs Intl.
YEN							
West LB Finance Curaco	10bn	4.25	100.25R	Oct.1999	0.25R	-	IBJ Intl.
FRENCH FRANCS							
Dresdner Bank Finance Ams.	2bn	7.50	99.586R	Oct.1998	0.225R	+18(8½%-98)	BNP Cap.Mkts.
Thomson-Brandt Intl.	1bn	7.60	99.575R	Oct.1997	0.24R	-	Societe Generale/UBS
D-MARKS							
Munchener Hypothekenbank‡	200	(a)	100.04	Oct.1999	0.20	-	DG Bank
ITALIAN LIRE							
France Telecom	150bn	11.40	101.225	Oct.1997	1.375	-	Swiss Bank Corp

Final terms and non-callable unless stated. The yield spread (over relevant government bond) at launch is supplied by the lead manager. ‡Floating rate note. R: fixed re-offer price; fees are shown at the re-offer level. a) Coupon pays 3 mth. Libor flat.

Singapore SE relaxes rules

The Stock Exchange of Singapore (SES) plans to boost trading of foreign currency-denominated stocks by allowing overseas brokers to trade the shares directly, said finance minister Richard Hu, Reuter reports from Singapore.

The exchange will also give priority to regional stockbrokers who want to take an equity interest in local firms, or who want to set up in Singapore as an international member of the exchange, Mr Hu said at the Asian Securities Analysts Council annual conference.

Mr Hu told the conference the Singapore government wanted the SES to develop as a centre for regional securities trading, and these measures would increase liquidity as well as improve the exchange's competitiveness.

"The SES will allow foreign brokers, who are not members of the exchange, but which are licensed by the MAS [Monetary Authority of Singapore], to become subscribers to the trading terminals provided by the SES to deal in stocks quoted in foreign currencies," Mr Hu said.

Foreign brokerages will no longer have to put such transactions through an SES member broker.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		9.000	09/04	93.1700	-3.820	10.10	9.52	9.50
Belgium		7.250	04/04	91.0100	+0.210	8.65	8.55	8.39
Canada *		6.500	06/04	84.4000	+0.650	8.94	8.76	9.07
Denmark		7.000	12/04	85.2200	-0.230	9.29	9.01	8.82
France	BTAN	6.000	05/98	101.6250	-0.130	7.45	7.34	7.15
	OAT	5.500	04/04	83.2800	+0.110	8.06	7.96	7.74
Germany Bund		6.750	07/04	94.5800	+0.260	7.55	7.40	7.20
Italy		8.500	04/04	79.8900	+0.890	12.11†	11.89	11.50
Japan	No 119	4.800	06/99	103.4130	-0.170	3.95	4.05	4.05
		4.100	12/03	97.0350	-0.410	4.58	4.69	4.62
Netherlands		5.750	01/04	88.6200	-0.360	7.48	7.39	7.23
Spain		8.000	05/04	80.7000	-0.750	11.37	11.18	11.08
UK Gilts		6.000	08/99	90-00	-8/32	8.53	8.37	8.43
		6.750	11/04	86-23	+16/32	8.74	8.59	8.69
		9.000	10/08	102-11	+18/32	8.70	8.51	8.67
US Treasury *		7.250	08/04	98-20	-5/32	7.45	7.21	7.30
		7.500	11/24	97-17	-8/32	7.71	7.50	7.61
ECU (French Govt)		6.000	04/04	83.2000	-0.120	8.64	8.49	8.28

London closing, *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Lunchtime

		Treasury Bills and Bond Yields			
		One month	4.63	Two year	6.39
Prime rate	7¾	Two month	4.74	Three year	6.63
Broker loan rate	6½	Three month	4.69	Five year	7.05
Fed.funds	4¾	Six month	5.17	10-year	7.43
Fed.funds at intervention	-	One year	5.66	30-year	7.70

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	111.94	112.14	+0.12	112.20	111.68	166,312	80,805
Dec	110.90	111.20	+0.14	111.24	110.74	37,859	75,096
Mar	110.24	110.54	+0.14	110.40	110.24	72	5,109

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Oct	Calls Dec	Calls Mar	Puts Oct	Puts Dec	Puts Mar
111	0.90	1.86	-	0.71	1.63	-
112	0.43	1.31	-	1.30	2.07	-
113	0.16	0.83	-	-	2.75	-
114	0.05	0.53	-	-	-	-
115	0.03	0.30	-	-	4.15	-

Est. vol. total, Calls 26,506 Puts 29,886. Previous day's open int., Calls 190,538 Puts 266,980.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	88.68	89.00	+0.29	89.10	88.53	107364	144636
Mar	88.10	88.25	+0.29	88.25	87.90	33	1058

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Oct	Calls Nov	Calls Dec	Calls Mar	Puts Oct	Puts Nov	Puts Dec	Puts Mar
8900	0.53	0.99	1.22	1.33	0.53	0.98	1.22	2.08
8950	0.30	0.74	0.97	1.11	0.80	1.24	1.47	2.36
9000	0.15	0.54	0.76	0.92	1.15	1.54	1.76	2.67

Est. vol. total, Calls 9082 Puts 9511. Previous day's open int., Calls 165739 Puts 172711

■ NOTIONAL MEDIUM TERM GERMAN GOVT. BOND (BOBL)(LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
NA							0

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	95.55	96.10	+0.77	96.21	95.31	33303	64265
Mar		95.27	+0.77			0	340

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Dec	Calls Mar	Puts Dec	Puts Mar
9600	2.55	1.69	2.45	2.42
9650	2.29	1.48	2.69	2.71
9700	2.04	1.30	2.94	3.03

Est. vol. total, Calls 1060 Puts 1342. Previous day's open int., Calls 8506 Puts 11032

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	86.10	86.29	-0.77	86.38	85.66	33,818	85,268
Dec	84.92	84.81	-0.82	84.97	84.35	9,657	37,811

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	100-03	100-19	+0-19	100-21	99-28	2402	23688
Dec	99-12	99-31	+0-25	100-06	98-29	90214	91718
Mar		99-11	+0-25			0	0

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls Dec	Calls Mar	Puts Dec	Puts Mar
99	2-40	3-10	1-42	2-62
100	2-03	2-43	2-05	3-21
101	1-35	2-16	2-37	3-58

Est. vol. total, Calls 1635 Puts 4353. Previous day's open int., Calls 27496 Puts 25492

Ecu

■ ECU BOND FUTURES (MATIF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	80.30	80.28	-0.12	80.32	80.00	1,970	4,296
Dec	79.56	79.74	-0.10	79.70	79.44	872	5,484

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Sep	100-24	100-23	+0-01	100-28	100-21	24,826	121,343
Dec	99-27	99-26	+0-01	99-30	99-22	264,381	302,407
Mar	99-04	99-04	+0-01	99-06	99-02	1,201	7,796

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Dec	107.68			107.80	107.43	2248	0

* LIFFE contracts traded on APT. All Open Interest figs. are for previous day.

FT-ACTUARIES FIXED INTEREST INDICES

Price Indices UK Gilts	Mon Sep 12	Day's change %	Fri Sep 9	Accrued interest	xd adj. ytd		Low coupon yield Sep 12	Low Sep 9	Low Yr. ago	Medium coupon yield Sep 12	Medium Sep 9	Medium Yr. ago	High coupon yield Sep 12	High Sep 9	High Yr. ago
1 Up to 5 years (24)	119.73	-0.23	120.00	1.69	8.01	5 yrs	8.62	8.58	6.31	8.69	8.68	6.44	8.83	8.79	6.64
2 5-15 years (21)	137.85	+0.39	137.79	1.58	9.60	15 yrs	8.60	8.68	6.98	8.73	8.81	7.11	8.97	9.04	7.34
3 Over 15 years (9)	154.13	+0.78	152.93	1.26	9.81	20 yrs	8.53	8.61	7.10	8.73	8.81	7.18	8.81	8.86	7.36
4 Irredeemables (6)	176.67	+0.98	174.96	2.70	8.83	Irred.†	8.59	8.66	7.26						
5 All stocks (60)	135.77	+0.26	135.59	1.60	9.15										

Index-linked							Inflation 5% Sep 12	Sep 9	Yr. ago	Inflation 10% Sep 12	Sep 9	Yr. ago
6 Up to 5 years (2)	185.27	-0.11	185.47	0.83	3.95	Up to 5 yrs	3.91	3.85	2.52	2.87	2.81	1.77
7 Over 5 years (11)	172.04	-0.19	172.37	0.66	3.81	Over 5 yrs	3.86	3.85	3.14	3.68	3.67	2.97
8 All stocks (13)	172.53	-0.18	172.85	0.67	3.81							

Debentures and Loans						5 year yield Sep 12	Sep 9	Yr. ago	15 year yield Sep 12	Sep 9	Yr. ago	25 year yield Sep 12	Sep 9	Yr. ago
9 Debs & Loans (75)	127.62	+0.53	127.05	2.30	7.84	9.73	9.75	7.65	9.64	9.68	8.00	9.56	9.61	8.15

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT FIXED INTEREST INDICES

	Sep 12	Sep 9	Sep 8	Sep 7	Sep 6	Yr ago	High*	Low*
Govt. Secs. (UK)	90.46	90.84	91.65	91.26	91.06	102.86	107.04	90.46
Fixed Interest	107.87	108.19	108.20	107.99	108.25	124.99	133.87	107.33

* for 1994. Government Securities high since compilation: 127.40 (9/1/35), low 49.18 (3/1/75). Fixed Interest high since compilation: 133.87 (21/1/94), low 50.53 (3/1/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

GILT EDGED ACTIVITY INDICES

	Sep 9	Sep 8	Sep 7	Sep 6	Sep 5
Gilt Edged bargains	111.7	100.7	79.8	85.3	91.4
5-day average	93.8	95.6	92.5	93.3	92.7

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:00 pm on September 12

	Issued	Bid	Offer	Chg.	Yield
U.S. DOLLAR STRAIGHTS					
[illegible]					
SWISS FRANC STRAIGHTS					
[illegible]					
YEN STRAIGHTS					
[illegible]					
OTHER STRAIGHTS					
[illegible]					
DEUTSCHE MARK STRAIGHTS					
[illegible]					
FLOATING RATE NOTES					
[illegible]					
CONVERTIBLE BONDS					
[illegible]					

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day. FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. [illegible]

UK GILTS PRICES

Notes	Yield Int	Yield Red	Price £	+ or -	1994 High	1994 Low
Shorts (Lives up to Five Years)						
[illegible]						
Five to Fifteen Years						
[illegible]						
Over Fifteen Years						
[illegible]						
Undated						
[illegible]						
Index-Linked						
[illegible]						
Other Fixed Interest						
[illegible]						

● 'Tap' stock. ‡‡ Tax-free to non-residents on application. £ Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds.

COMPANY NEWS: UK

Shares climb in spite of price increase and warnings of more to come

British Polythene expands 30%

By Caroline Southey

British Polythene Industries, Europe's largest polythene film producer, announced an average 15 per cent increase in industrial and retail product prices yesterday in the wake of raw material price rises.

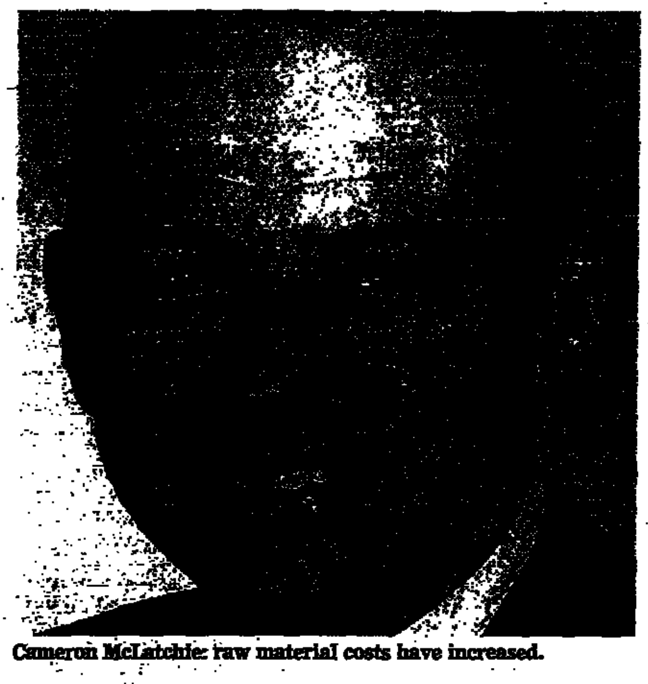
Mr Cameron McLatchie, chairman and chief executive, said the company was raising sales prices to customers following a 25 per cent increase in polymer prices to over £500 per tonne in August.

British Polythene increased pre-tax profits by 30 per cent from £6.61m to £8.61m in the half-year to 30 June. Turnover rose by 20 per cent from £96.6m to £116m with a £3m contribution from acquisitions. Operating profits were ahead at £10.2m (£7.77m) helped by £99,000 from acquisitions.

Fully diluted earnings per share rose from 12.29p to 14.82p. The share price closed up 7p at 488p yesterday.

The raw material price increases reflected general upward pressure on prices in the world plastics market and further increases are likely in the near future, including a 10 per cent rise in October.

"In the short term these raw material cost increases present our customers and ourselves with pricing problems," he said.



Cameron McLatchie: raw material costs have increased.

However, in the absence of monthly rises in polythene prices, Mr McLatchie anticipated that margins would begin to improve again once prices had settled down.

In the medium term the raw material prices would not have a detrimental effect on the business, particularly as prices were heading "for the level where our recycling will start to show good returns". The company was able to offer more competitive prices for its recycled material as virgin plastic prices rose.

The directors said British Polythene continued its acquisitive strategy, buying a further seven businesses this year with total pre-acquisition turnover of £25m.

Gearing rose from 18 per cent last time to 28 per cent with net borrowings of £23m.

Acquisitions included Nelson Packaging, a specialist carrier bag business, the remaining UK polythene assets of Nyborg Plast and Megafilm.

An interim dividend of 4.5p (3.75p) was declared.

● **COMMENT**

British Polythene demonstrated it is a credible business yesterday when its shares closed up 7p despite its price increases and warnings of *more. It is a credit to the business* that the market also believes price rises should not be regarded as a major problem *per se*. If rises in raw material costs can be passed on efficiently, the possibility remains that margins might even improve. Acquisitions have blurred the company's results but a clearer picture is beginning to emerge and organic growth of 4 to 5 per cent was achieved this time. Forecasts put profits between £17m and £18.5m next year and £19m and £21m in 1995. The shares are trading on a prospective p/e of 15 and look a safe bet for the the medium-term investor.

Retailing losses take toll on Liberty

By Peter Pearse

Shares in Liberty fell by 33p to 355p yesterday, as the retailing and textile group tumbled into the red in the six months to July 30, following sharply increased losses on the retailing side.

Pre-tax losses emerged at £305,000, against profits of £602,000 previously, as trading losses in the retailing division grew to £1.36m (£561,000).

Mr Patrick Austen, chief executive, described the performance as "disappointing", though he stressed that poor first halves were not uncommon – Liberty's year is heavily weighted to the second half.

Having steered the group through full enfranchisement of its non-voting shares since his arrival in May 1993, he has rejigged the divisional and management structure – creating separate textile and brand products divisions – and had "bitten the bullet" and closed the store in New York's 5th Avenue.

This had been the flagship of a five-store US chain, but the other stores were all closed by January 1992.

The US closure had staunched regular first-half losses of about £200,000, said Mr Austen, but had cost £606,000. This was included in retailing's trading losses.

However other factors contributed to the decline. The group said that the first day of the sale had coincided with a rail strike and that the "extremely hot weather" had kept shoppers away.

There had also been several primary "disruptions", when the London flagship store – and Regent Street itself – was closed after a firebomb and other bomb alerts.

Mr Austen said Liberty was trading 7 per cent up year-on-year until June, but that in July it was 5 per cent down. However since the period-end the group was back to a 5 per cent increase over last time.

Group turnover rose 2 per cent to £38.3m. The interim dividend is held at 1.85p in spite of losses of 3.44p (earnings 0.25p) per share.

Dewhirst doubles to £7m and raises pay-out by 63%

By Peggy Hollinger

Dewhirst Group, the supplier of clothing to Marks and Spencer, the high street retailer, increased its interim pay-out to shareholders by 63 per cent yesterday as it announced profits had doubled to £7m.

Mr Scott Beattie, finance director, said the profits growth was mainly the result of higher volumes and better productivity. This had helped to increase trading margins from 3.8 per cent to 6 per cent.

"Last year was a year of getting sales growth and this was a year of making use of it," he said. Sales for the 26 weeks to July 15 rose by 23 per cent from £95.4m to £117m.

As a result of the substantially improved performance, the dividend was increased from 0.4p to 0.65p. Earnings were almost doubled to 3.63p.

Both the ladies' wear and men's wear divisions had performed strongly during the first half, said Mr Tim Dewhirst, chairman. Reorganisation of the children's wear operation, which incurred losses last year, was now also largely complete. This business was expected to break even in 1994.

Mr Dewhirst said prices were not expected to rise this year. There remained some uncertainty, however, given the pressure of hardening cotton prices.

Mr Dewhirst said he was confident the company would continue to make progress in 1994. In the past 12 months, Dewhirst had increased its market share both on the high street and in Marks and Spencer, which accounts for about 85 per cent of its sales.

"Our efforts are focused at improving operating margins," he said. Dewhirst has said it aims to get trading *margins up* to 7 per cent by 1996.

Higher profits and improved cashflow helped Dewhirst to reduce its net interest payments from £156,000 to £121,000.

Pendragon helped by revived demand for new upmarket cars

By Peter Pearse

A revival in demand for new upmarket cars lay behind a 32 per cent rise in pre-tax profits to £4.06m at Pendragon, the executive and luxury car dealer, in the six months to June.

Mr Trevor Finn, chief executive, explained that with used car values rising towards the levels for new cars, people were more likely to buy new. New car sales contributed £6.2m of gross profits, against £4.6m last time.

He suggested that "principals of industry" were giving signals that the recession was now over and that they were making car purchases they had previously postponed.

This, Mr Finn said, helped to explain why the group's total new registrations grew by 20 per cent over last time, against a 14 per cent rise in the whole car market.

Group turnover climbed 56 per cent from £119.6m to £186.9m, including £2.46m from acquisitions. Growth in operating profits was less dramatic at 39 per cent, from £3.57m to £4.94m, including £68,000 from acquisitions.

Mr Ian Wheeler, finance director, said the margin slippage was due to the addition of Ford, Peugeot and additional Rover franchises, which added £25m turnover to last time's £5.5m in the group's EC volume car sector. This greater turnover at smaller margin, he said, had a dilutive effect across the group.

Gross profits from used car sales were flat at £2.2m, while after sales business contributed £12.4 (£9.4m). Mr Finn said that luxury cars owners were more likely to return to the seller than turn to Kwik-Fit or the like. Contract hire chipped in £1.9m (£900,000), illustrating the rise in values in the used car market.

Interest payable rose to £888,000 (£495,000) on borrowings up at £13.4m (£8.2m at end-December).

The interim dividend is lifted to 2.7p (2.4p), payable from earnings up 20 per cent to 7.3p (6.1p) per share.

Boxes coming to market this month

By Richard Wolffe

Boxes, a cardboard packaging producer, is planning to come to market through a placing which is likely to value the company at more than £18m.

The family-owned company is expecting to raise up to £5m in new money through the flotation at the end of this month, in order to fund acquisitions. Boxes is estimated to have about 200 competitors in the cardboard packaging market.

The Watford-based manufacturer specialises in the production of printed folding cartons for the pharmaceutical, food and household markets.

Mr Yalkin Tanyar, chief executive of Boxes, said: "We believe that a listing on the London Stock Exchange will give Boxes greater flexibility to take advantage of opportunities to develop the group, both organically and through the selective acquisition of complementary businesses.

"The company also expects to benefit from a higher profile and greater acceptance by customers as a result of being a listed company."

Boxes, which also owns manufacturing operations in Great Harwood, near Manchester, and Burnley, Lancashire, increased its turnover from £15.7m to £17.8m between 1992 and 1994.

Pre-tax profits increased from £0.7m to £1.3m in the same period, as the company increased its operating margin from 8.7 per cent to 12.8 per cent.

The company, which also owns businesses making cake decorations and small rigid boxes, has a blue chip customer base including Smith & Nephew, Reckitt & Colman and SmithKline Beecham.

The flotation will leave the bulk of the company in the hands of the family of Mr Derek Gee, president of Boxes which currently owns 95 per cent of the capital. The remainder is held by Mr Tanyar's family.

The issue is sponsored by Samuel Montagu and the stockbroker is James Capel.

Centre Re buys Sedgwick arm

By Richard Lapper

Centre Re, the Bermuda-based reinsurer, yesterday further strengthened its connections with the Lloyd's of London insurance market when its CentreLine subsidiary acquired Mendip, a Bermudan subsidiary of Sedgwick, the insurance broker.

Like CentreLine, Mendip is an underwriter of "time and distance" policies, a form of specialist financial reinsurance used by Lloyd's syndicates to manage their reserves more effectively.

CentreLine will pay up to £30m for Mendip, which will increase its total time and distance assets under management to some $2bn (£1.2bn). The consideration is payable in cash on completion – which will take place not later than September 30 – except for a deferred sum of £8.6m, payable in nine annual instalments to December 31 2002, with the amounts varying between £600,000 and £1.3m.

Mendip's profits for 1993 were £1.7m and its net assets at that date amounted to £18.2m. Its total assets and liabilities at last December 31 were £337.7m and £319.5m respectively. Sedgwick said the proceeds would be used to reduce group borrowings but group profits would not be materially affected.

Centre Re, now wholly owned by Zurich of Switzerland, has a number of other connections with Lloyd's. It provides reinsurance for Integer, a stop loss reinsurance scheme for individual Lloyd's Names. The company is also involved as a reinsurer in a corporate capital scheme designed by Insurance Indemnity Services which aims to provide some £80m in capacity for up to 86 syndicates.

NEWS DIGEST

Scientific side behind drop at FII

Despite an improved second half, FII Group, maker and distributor of footwear and scientific and medical equipment, reported a fall in pre-tax profits from £5.2m to £2.55m in the year ended May 31.

The result was after exceptional items of £1.32m (£550,000) relating to product recall costs, losses on cancellation of a development contract and rationalisation costs.

Turnover edged ahead to £83m (£82m) which Mr Monty Sumray, the chairman, said was despite setbacks in the scientific and technical division where sales fell to £8.45m (£11.3m). Rationalisation and investment programmes were continuing in the division which reported losses of £1.47m (£80,000).

In footwear, sales rose to a record £74.6m (£70.6m) although operating profits slipped to £3.49m (£4.93m).

Earnings per share fell from 22.7p to 10.9p but the dividend is maintained at 14.75p with an unchanged final of 8.75p.

Merivale Moore £1.11m in the black

Merivale Moore, the commercial property investment company, ended the year to June 30 firmly in the black with a pre-tax profit of £1.11m.

The outcome, which compared with a loss of £939,000 last time, was achieved on turnover up from £24.3m to £24.8m and was struck after an exceptional charge of £67,000 (£2.36m gain).

Merivale suffered losses in both 1992 and 1993 years, but returned to profit in the first half of 1994.

After a tax charge of £289,000 (£3.71m refund) earnings per share came out at 6p (12.9p) and the company is returning to the dividend list with a proposed 2p pay-out for the year.

Since the year end Merivale has acquired a £6m portfolio of retail properties from Warner Estate Holdings, part of the consideration for which was the issue to Warner of 3.5m Merivale shares – 20.5 per cent of the enlarged equity.

In addition, 16 commercial properties were acquired from Sun Life for £12.4m cash.

Aspen at £1m after all-round growth

All-round growth enabled Aspen Communications to report pre-tax profits of £1m for the half year to June 30. Profits of £1.29m last time included an exceptional credit of £1.1m.

Turnover for the USM-quoted provider of printing, media and communications and marketing services, advanced by 15 per cent to £34.3m (£30.2m). After redundancy costs, operating profits amounted to £1.16m (£381,000).

Earnings per share worked through at 4.8p (5.6p) and the interim dividend is lifted to 2.15p (2p).

Sharpe & Fisher advance to £2.04m

Recovery in the housing and home improvement markets helped Sharpe & Fisher, the building supplies company, to increase first half pre-tax profits from £658,000 to £2.04m, helped by a £569,000 contribution from the sale of investment property.

Turnover for the six months to June 30 was 27 per cent ahead at £31.5m (£24.9m), with acquisitions contributing £32,000 (nil) and rental income £345,000 (£325,000).

Earnings per share came out ahead at 6.6p (2.1p) and there is an increased interim dividend of 1.7p (1.5p).

Healthcall moves ahead to £2.94m

Healthcall Group continued to make progress in the first half of 1994. Pre-tax profits on healthcare – operations advanced to £2.94m, against £1.48m last time, which was after a £450,000 loss on other operations.

Turnover on healthcare operations grew 11 per cent to £19.4m (£17.43m). The company, which provides healthcare services to GP's and Family Health Services Authorities, made its market debut in May.

Mr Henry Meakin, chairman, said the directors believed trading margins were capable of doubling over the next two years.

Pro forma earnings per share on healthcare grew 11 per cent to 4.02p and an interim dividend of 1.5p has been declared.

Select Appointments at £2,000 midway

Select Appointments (Holdings), the USM-quoted recruitment agency, reported pre-tax profits of £2,000 for the six months to end-June, against losses of £662,000. However, a tax charge of £135,000 this time left losses per share of 0.06p, against 0.32p.

Strong growth in all markets helped turnover rise from £12.7m to £28.8m including £485,000 from acquisitions. Since the period end two further acquisitions have been made and more are being sought.

Murray European asset value up 20%

The net asset value per share at Murray European Investment Trust improved by 20 per cent from 51.6p to 62.1p over the year to June 30.

For the six month period net available revenue slipped to £187,000 (£224,000), equivalent to earnings per share of 0.56p (0.75p).

Mid Assets in talks over acquisition

By David Blackwell

Midland Assets, which was created in May to acquire four nursing homes from Northern Leisure, said yesterday that it was in talks that might lead to "a substantial acquisition."

It is understood that the talks could end in a reverse takeover. An announcement is expected by the end of next week.

Midland Assets is chaired by Mr Nicholas Oppenheim, also vice-chairman of Northern Leisure. It paid £1.9m in cash for the RealCare nursing homes business, which Northern had been trying to sell for two years.

The company, which raised £2.4m via an intermediaries offer of ordinary shares, said at the time that it was looking for opportunities that either had above average possibilities for medium term growth, or were likely to generate steady but increasing income.

Yesterday the shares closed at 21.5p, up 1p.

Dowding & Mills achieves 33% growth

By David Blackwell

Dowding & Mills, the electrical and mechanical services group, lifted pre-tax profits by 33 per cent to £6.73m in the year to June 30 the back of a 9 per cent rise in turnover.

Profits of £5.04m last time included exceptional costs of £626,000. Sales increased from £83.3m to £91m.

Mr Jim Cole, chief executive, said that excluding exceptionals, operating profits were up 12.6 per cent at £7.2m, helped by a good performance in the US.

Conditions in continental Europe continued to be difficult, although Germany had performed well.

In the UK, which accounts for 60 per cent of turnover, the volume of business throughout 1993-94 had levelled out after three years of decline. The group had also been able to impose price rises in line with inflation.

"Since the end of July we have seen some improvement in the UK," said Mr Cole.

Mr Peter Hollings, the chairman, said in Australia recovery was well under way but it would take time for the new Melbourne facility to contribute to profits.

During the year the company shed 35 people at a cost of £148,000, against 97 redundancies at a cost of £423,000.

Net interest payable fell from £732,000 to £479,000, and gearing was reduced from 18.8 per cent to 15.3 per cent.

Earnings per share rose to 2.74p (2.04p). A final dividend of 1.62p (1.58p) is proposed, taking the total to 2.56p (2.5p).

The group also announced the acquisition of The Surface Flatness Co, a Manchester mechanical calibration business, for £370,000.

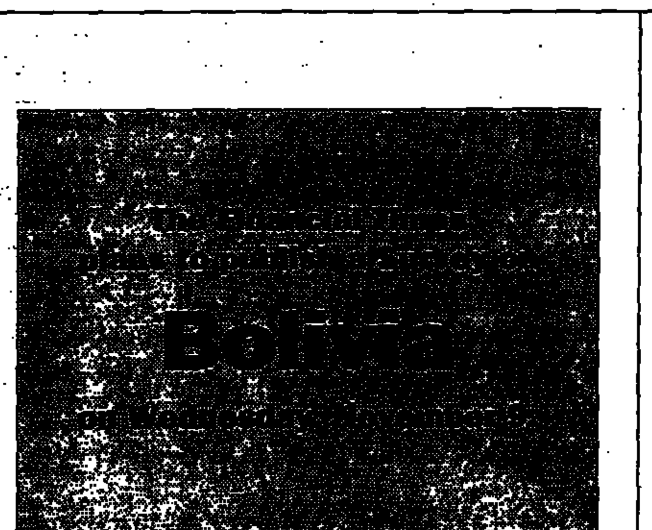
Candover net asset value advances 7%

Candover Investments, the investment trust specialising in large management buyouts, saw a 7 per cent increase in net assets per share in the six months from December 31, up from 310p to 330p, and a 17 per cent increase from 281p on June 30 1993.

Pre-tax profits for the first half were ahead at £2.4m (£1.6m), including a £724,000 non-recurring contribution from an investee company. Profit after tax was also ahead, at £1.61m, against £1.09m.

Following an additional £9m contribution, the Candover 1994 Fund to finance large buy-outs and buy-ins now stands at £222m and a final closing is expected before the year end.

Earnings per share came out at 7.18p (4.87p). The interim dividend is increased to 4.15p (3.95p).



Bardon in the black with £2.1m at midway

By Andrew Taylor, Construction Correspondent


Peter Tom: the pressure to sell businesses to cut debt is removed

Bardon Group, the international aggregates and ready mix concrete company, yesterday announced details of a large new loan facility and management reorganisation as it published its first profits for 2½ years.

The company, which had net borrowings of £239m at the end of June, representing gearing of 69 per cent, said that it had agreed a $350m (£226m) four-year syndicated banking facility, stabilising its finances. Most of Bardon's borrowings are in the US.

The company made pre-tax profits of £2.1m on turnover of £140m in the first six months of this year, compared with a loss of £59.5m from turnover of £160.5m in the first half of 1993, when it wrote down by £60m the value of its UK sand and gravel dredging business.

Operating profits rose by 10 per cent in the first half to £10.1m, thanks to a strong performance from its UK businesses which had increased profits by a third to £8.4m.

Profits at the US arm, however, fell from £2.5m to £900,000 due to bad winter weather which had restricted construction activity, and a delay in approving finance for the Massachusetts road programme.

Bardon said that it had removed the divisional management structure of its UK and US businesses to shorten reporting lines, improve efficiency and reduce costs. These businesses would in future report direct to Mr Peter Tom, the chief executive.

It had been agreed that Mr Stuart Lamb, previously US divisional chief executive, would leave the group shortly.

The improvement in the group's finances meant that the pressure to sell businesses to reduce borrowings had been removed, said Mr Tom. An attempt to sell the UK aggregates dredging business – it is thought to Minorco – fell through last year.

The UK businesses, including the dredging operations, were now benefiting from increased sales volume and higher prices as UK construction activity had risen. Prices also had risen in the US, but coated roadstone volumes in Massachusetts were significantly lower.

Losses per share emerged at 0.1p (16.2p) and the interim dividend is held at 0.8p.

● **COMMENT**

Massachusetts has tripped the group again, marring an otherwise good trading performance. Bardon's finances may be stabilised, but it is difficult to see how borrowings can be reduced to a manageable level from trading alone. A sale may yet be needed, but this can be at a time and price more of Bardon's choosing. A prospective yield of approaching 6 per cent on a maintained final dividend and a net asset value of about 65p should underpin the share price, which fell 2p to 43p yesterday. However, pre-tax profits of £20m this year and £28m next, putting Bardon on prospective multiples of 21 and approaching 15, indicates that this rating is unlikely to improve while borrowings remain high.

Country Casuals shares fall on warning

By Peggy Hollinger

Country Casuals shares plunged by more than a fifth yesterday as the clothing retailer warned profits would be hit by unexpected difficulties in establishing its larger women's brand, Elvi.

The shares fell by 32p to 120p following the announcement. Analysts, who had been expecting some costs as a result of the expansion of Elvi, marked their forecasts for annual profits down from about £3m to £2m.

Mr John Shannon, chairman, said establishing Elvi as a retail chain had taken longer than expected. The group had encountered difficulties in opening shops and sales had been below budget.

Country Casuals was forced to discount higher levels of Elvi stock in the summer sales as a result and gross margins were hit. Mr Shannon said the group remained committed to developing a middle market niche in the larger women's market. In the second half, Country Casuals would be supporting its 50 shops with national advertising.

Country Casuals also suffered delays in opening shops in its smaller Koto business, which caters for the younger fashion market. Although sales were 10 per cent higher in the first half, margins were affected by discounting.

These factors meant that full year profits would be substantially below market expectations, Mr Shannon said. He refused to quantify the extent of the expected writedowns and provisions. More details would be given with the interim results due in October, he said.

The Elvi management team has been strengthened with the appointment of Mr Russ Hamer, formerly of Debenhams and Laura Ashley, as managing director.

The core Country Casuals chain improved margins by about two percentage points. The division achieved sales of £15.1m in the first half, down by 1 per cent.

Lerose Manufacturing enjoyed a strong first half, with sales up by 26 per cent.

Pressure points at the margins

The ability to pass on price rises is limited, says **Christopher Price**

Complaints about rising costs putting pressure on margins and warnings about price increases to come have punctuated the current British company results season.

Yesterday there was yet more evidence of inflationary pressure in the system.

Dalgety, the food manufacturer, complained of very competitive margins and a sharp rise in input prices for its consumer food businesses. British Polythene said it expected raw material prices to rise 60 per cent in the three months to October.

Last week BTR, the industrial conglomerate, saw its share price decline nearly 12 per cent after warning that margins would remain under pressure, largely because it was unable to pass price increases on to customers.

The impact of inflation has varied from sector to sector. In printing, paper and packaging, for example, increases in raw material prices have been largely passed on.

Mr Alain Soulas, chief executive of Arjo Wiggins Appleton, the Franco-British paper company, which last week reported a 67 per cent rise in pre-tax profits, said pulp prices had risen five times this year, resulting in an increase of 45 per cent.

"The recovery in the world economy has turned the pulp market from a buyers' one to a sellers' one," he said, adding that the company's success in passing on price rises was in part due to its strong position in the market.

Bowater, the packaging and printing group, has also been successful in passing on price rises. Mr Michael Hartnall, finance director said: "We don't like doing it, but we have no choice. We have seen a substantial upswing in our raw material costs since the start of the year."

He expected inflationary pressure to peak by the year-end then level out. Mr Soulas said the strong pressures could run on longer than that.

The competitive environment has prevented companies further down the distribution chain, like food retailers, from pushing through price rises. But the powerful market position of the top five food retailers, which control almost half the UK grocery market, has enabled them to resist suppliers price rises.

"Our prices will not increase," said Mr Archie Norman, chief executive of Asda, the UK's third largest supermarket group. "This is both company policy and a necessity. The marketplace just will not bear it."

Mr Derek Pretty, finance director at Kwik Save, the discount supermarket operator, added: "We do detect more desire from suppliers for price increases, but we are not able, or willing, to accept them."

For food manufacturers, like Dalgety, the result has been constant pressure on margins.

Another industry in a similar predicament is housebuilding. Reporting results last week, both Wilson (Connolly) and Bellwinch complained of the sharp rise in raw materials costs set against the dull housing market.

Mr Ian Black, managing director of Wilson (Connolly), said yesterday bricks and bricklayer costs had risen 18 per cent during the first half of the year, while concrete block prices had increased 20 per cent and timber prices 15 per cent.

"House price inflation will be 3 per cent by the year end if we are lucky," he said. "We are being squeezed from underneath in a market which cannot bear any price increase." He blamed the recession for reducing building material manufacturing capacity and for forcing labourers abroad.

Steady growth for Forth Ports

By James Buxton, Scottish Correspondent

Forth Ports, the privatised Scotland-based ports operator, saw steady growth in turnover and profits in the six months to June 26. Pre-tax profits rose 4.2 per cent to £5.73m (£5.49m). Turnover was up 2.5 per cent at £16.2m, against £15.8m adjusted to exclude £1.3m relating to offices being constructed at Victoria Quay, Leith, Edinburgh for the Scottish Office, which have been sold forward.

None of the profit made on a property sale at Victoria Quay has been incorporated. Part will be included in the full year results with the balance next year.

The overall tonnage handled in the Forth estuary increased by 75 per cent to 20.1m as a result of a 90 per cent increase in piped cargo through BP's Hound Point terminal. Dry cargo handled dropped by 250,000 tonnes to 1.3m tonnes. Revenue per tonne of piped cargo is only about a twentieth of that for dry cargo.

Mr William Thomson, chairman, said Forth Ports was encouraged by the recent transformation of the area around the port of Leith which augured well for future developments. Port business had been steady since the half year and the company should report a satisfactory profit for the full year.

Earnings per share rose 6.7 per cent to 12.7p (11.9p) and the interim dividend is up 20 per cent at 2.7p (2.25p).

The shares rose 20p to 475p yesterday. BZW, the company's broker, raised its profits forecast for the full year from £12.3m to £13m, including a £1.65m contribution from Victoria Quay. The forecast implies earnings per share of 29p and a prospective multiple of about 16.

Amey more than trebled at £1.73m

Amey Holdings, the civil engineer which came to the market in June, reported interim pre-tax profits more than trebled at £1.73m for the first half of 1994.

This compared with £556,000 which included losses of £1.07m on discontinued activities.

Profits on continuing activities rose by 6.8 per cent. Turnover was £97.3m, down from £109.4m which included £3.07m from discontinued activities. The underlying fall was 8.5 per cent.

The company also confirmed that it was forming a joint venture with Taylor Woodrow and Sir Robert McAlpine to tender for privately financed road schemes.

The company said that the present six months had started well with trading up on the comparable period.

Earnings per share were 4.8p (1.2p) and a dividend of 1.5p has been declared.

EIS maintains growth with £8.9m

By Christopher Price

EIS Group, the acquisitive specialist engineering group, continued its 23-year run of uninterrupted profit growth with a 14 per cent increase in pre-tax figures to £8.93m at the interim stage.

However, the company warned that margins remained under pressure, although the situation was showing some signs of picking up. "We've seen a glimmer of improvement in recent weeks," said Mr Peter Haslehurst, chief executive. "We're feeling more optimistic than we have done in quite a while."

Turnover to the end of June rose 25 per cent to £154.27m (£123.86m), including £2.78m from acquisitions. Earnings per share rose from 13.1p to 13.3p, while the interim dividend was increased 3 per cent to 3.4p.

Mr Haslehurst said that there were strong performances from the technical mouldings and flight spares businesses, although he declined to give a breakdown of operations. Conversely, the aircraft and precision engineering divisions were weak in the face of difficult market conditions. Process equipment was "patchy but improving."

He added that the first half acquistions had all traded well. EIS bought C&F Miller, an aircraft maintenance equipment group, in April for £500,000, followed a month later by postal and defence equipment manufacturer ABPH for £2.5m. ADE-HML Ltd, an aircraft equipment maker, followed in July for £3.8m, with German coiling machinery group Henrich for £300,000 the next month.

With gearing down to 4 per cent, Mr Haslehurst said that further acquisitions were a possibility. "But we also have spare capacity available to take up any significant upturn in demand."

Nestor-BNA in the red after disposal

By David Blackwell

The sale of its hospitals and nursing home division earlier this year pushed Nestor-BNA, the healthcare and personnel group, into the red for the 26 weeks to June 17.

The pre-tax loss of £2.5m was struck after exceptional charges of £4.2m, reflecting a loss of £4.5m on the sale of the division offset by a gain of £290,000. The loss compares with profits of £2.01m.

Turnover rose from £49.3m to £56m, including £5.62m (£5.01m) from discontinued operations.

Mr Mike Rogers, chief executive, said there had been strong growth in the UK nursing agency business, which is the biggest in the country and accounts for about half of turnover. Operating profits rose from £862,000 to £1.2m.

However, the nursing agency business in the US had suffered in extremely difficult markets and operating profits fell to £356,000 (£744,000).

The disposal reduced fixed assets from £18.4m at the end of last year to £2.9m, and shareholders' funds from £5.66m to £2.42m. Borrowings dropped from £18.3m to £5.54m, cutting gearing from 324 per cent to 229 per cent.

Losses per share were 4.11p (1.93p earnings). The interim dividend is unchanged at 1.15p.

● **COMMENT**

Getting out of hospitals looks like a good move, enabling the company to concentrate on the growth area of flexible health care. The debt situation is also clearer, with interest cover much improved. Stripping out the exceptionals, earnings per share of about 4p can be expected for the full year, so the dividend looks safe despite the disastrous foray into the US. At the moment the yield of 8 per cent – almost double the market average – is the only reason for any interest in the stock. The question is, how long will the US albatross delay a dividend increase?

British Biotech shares up 5% despite deeper losses

By Peggy Hollinger

British Biotech shares defied a falling pharmaceuticals sector yesterday and jumped 5 per cent to 490p in spite of the company's announcement of deeper losses in the first quarter.

The market ignored the 34 per cent rise in net losses to £5.6m and chose to focus instead on British Biotech's upbeat comments on the progress of its cancer and pancreatitis drug trials.

Dr Brian Richards, chairman, said the year had started well for the group. "The successful completion of the £46m rights issue. . . together with the encouraging results of our trials means we are now planning the final stages of development for our leading drugs," he said.

The comments were interpreted by the market as "further confirmation that things are on track," said one analyst. The losses were also an improvement on the performance in the final quarter of last year, when British Biotech reported a deficit of £8m.

Turnover fell by 64 per cent to £767,000 due to the sale last year of British Biotechnology Products. Sales of continuing operations rose by 64 per cent.

The company has set up a new subsidiary, Neures, to investigate neuro-degenerative diseases such as multiple sclerosis.

The loss per share deepened from 10.7p to 11.9p. There was no dividend.

Output doubles but Pict Petrol drops to £3.25m

By Caroline Southey

Production from the Scott field helped Pict Petroleum, the oil and gas exploration company, more than double its production from 2,413 barrels of oil equivalent per day to 4,960 at the year-end and achieve record output of 1.8m barrels of oil equivalent against 881,000.

Net profits in the year to June 30 fell from £4.82m to £3.25m after a tax charge of £71,000 (nil). Pre-tax profits dropped from £4.82m to £3.32m. There was a foreign exchange loss of £329,000 this time, compared with a gain of £1.57m last time.

Turnover rose from £9.58m to £18m despite lower oil prices, which averaged £9.87 per barrel compared with £11.10.

Earnings per share came out at 6.3p (9.34p).

Independent Parts gets £20m valuation via placing

By Christopher Price

Shares in Independent Parts Group (IPG) were yesterday priced at 112p in a placing with institutional investors for a flotation capitalising the vehicle components company at £20m.

Peel Hunt, the company's stockbroker, will place 7.15m shares, representing about 44 per cent of the equity, raising £7.6m net of expenses.

IPG is the holding company for Tuberex, a manufacturer of automotive exhaust systems, and Veco, a wholesale distributor of replacement vehicle components. Turnover to end-March 1994 for the combined group was £13.5m, with pre-tax profits of just over £2m.

The placing receipts will be used to repay borrowings, which will leave the group ungeared.

DIVIDENDS ANNOUNCED

		Current payment	Date of payment	Corres-ponding dividend	Total for year	Total last year
American Trust	int	1.9	Oct 28	1.8	-	5.4
Amey	int	1.5	Oct 28	-	-	-
Aspen Comms §	int	2.15	Oct 28	2	-	4.9
Bardon Group	int	0.8	Dec 2	0.8	-	2
Brit Polythene	int	4.5	Nov 25	3.75	-	11.5
Candover	int	4.15	Oct 27	3.95	-	11
Dalgety	fin	13.15	Jan 3	12.65	21.15	20.5
Dewhirst	int	0.65	Nov 11	0.4	-	1.45
Dowding & Mills	fin	1.62	Oct 27	1.58	2.56	2.5
EIS Group	int	3.4	Dec 31	3.3	-	12.3
Fairey	int	2.25	Nov 15	1.9*	-	5.9*
FII	fin	8.75	Jan 3	8.75	14.75	14.75
Forth Ports	int	2.7	Nov 10	2.25	-	7.25
Healthcall	int	1.5	Nov 3	-	-	-
Jupiter Tyndall	int	6♥	Nov 18	4	-	11
Liberty	int	1.85	Nov 10	1.85	-	7.2
Merchants Trust	int	2.85‡	Nov 18	2.65	-	11
Merivale Moore	fin	2	Nov 10	nil	2	nil
Nestor-BNA	int	1.15	Oct 28	1.15	-	3.15
Pendragon	int	2.7	Oct 20	2.4	-	7.2
Second Alliance	fin	29	Oct 26	26.5	42	39
Sharpe & Fisher	int	1.7	Nov 18	1.5	-	4.2
Singer & Fried	int	1.4	Nov 1	1.25	-	3
UK Safety	int	1.04	Dec 14	1.04	-	2.6

Dividends shown pence per share net except where otherwise stated. †On increased capital. §USM stock. *Adjusted for scrip. ♥Also enhanced scrip dividend of 9p (6p). ‡Second quarterly, making 5.7p (5.3p) so far.

Singer & Friedlander advances 12% to £13m

By Simon Davies

Singer & Friedlander, the diversified merchant banking group, reported a 12 per cent increase in interim pre-tax profits from £11.7m to £13.1m, boosted by significant growth in its investment banking operations.

The performance was distorted by share sales during 1993, and profits before exceptional items for the six months to June rose by 22 per cent to £11.1m, up from £9.13m.

Growing competition in the corporate lending market restricted growth in its core banking business, and loans to customers increased only marginally, from £274.3m to £282m. Bad debt provisions fell from £825,000 to £33,000.

Profits from merchant banking and investment management rose to £6.92m (£5.77m). Corporate finance activity increased, and advisory deals for Embassy Property, Enviromed, and more recently Wellman, should ensure an increased contribution for 1994. Funds under management, primarily for private clients, rose to more than £1bn.

Collins Stewart, the 51 per cent owned broker, saw a sharp decline in market making profits, and Singer's dealing profits fell from £2.19m to £415,000. It was also hit by the impact of falling bond markets on its debt trading portfolio.

Singer's property portfolio, now valued at about £85m, contributed £2.49m (£1.89m), helped by trading profits. Interest and investment income rose to £1.7m (£1.47m), reflecting increased cash from recent share sales.

Trevor Humphries

John Hodson: planning further investment in core activities

Singer made £3.9m of provisions against property values last year, and it wrote back £2m of this at the interim stage, almost off-setting a £2.57m profit from the sale of its Burford stake in 1993.

During the half year Singer increased its stake in Associated Nursing Services to 22.6 per cent, and it now owns 60 per cent of Edgar Hamilton, the Lloyd's broker.

It also has a 21 per cent stake in the highly profitable People's Phone, an independent provider of mobile phone services. Brokers estimate it could make about £20m profit from the sale of this stake.

Mr John Hodson, chief executive, said Singer was looking to make further investments in teams and businesses within its core area of financial services.

It has recently set up unit trust fund management and structured finance teams, and is thought to be negotiating the purchase of Carnegie International, the European securities business.

House broker Barclays de Zoete Wedd Securities forecasts full-year profits of £26m.

The interim dividend is lifted to 1.4p (1.25p). Earnings per share rose from 4.63p to 5.16p.

UB pays £21m for Dutch snacks business

By Roderick Oram, Consumer Industries Editor

United Biscuits said yesterday it will become the savoury snack market leader in Benelux countries with its purchase of Dalgety's Dutch snacks business for £21m.

The purchase will give UB about 33 per cent of the market and push Snack Ventures Europe, a joint venture between PepsiCo and General Mills of the US, down to a close number two.

Dalgety said it was selling the business because it was the only savoury snacks company it had in continental Europe. It would focus on the UK where it had strong brands including Golden Wonder crisps.

In continental Europe, Dalgety will concentrate on food ingredients and pet foods.

In the Netherlands, Dalgety has about 14 per cent of the extruded snacks market and nine per cent of crisps through its NBSB-IT brand and private label products.

The business, which reported profits of £1.5m on turnover of £25.8m in the year ended June, will expand UB's Benelux snack sales by about 25 per cent.

"We've been relatively weak in the Netherlands and Belgium in savoury snack but not crisps," said Mr John Warren, UB's finance director. Currently, UB is supplying the Netherlands from a plant in Belgium which is operating near capacity.

The Dutch operation, which exports about 45 per cent of its output, will also give UB another route into Germany, the main European market in which it is under-represented. UB has one plant in southern Germany but most of its output goes to Italy.

Measure for market measure

Peter Martin considers the gap between analysts' and FT-SE figures

Why, stock market analysts have been asking, have their calculations of the overall valuation of the market diverged so much from the official price/earnings ratio for the FT-SE Actuaries All-Share index published every day in the Financial Times?

Some small difference is normal. But since the beginning of 1993, the gap has widened sharply.

In August, for example, the FT-SE figure had the All-Share selling at a ratio of 19.9. The average broker calculated the figure at 16.2.

There is more than just statistical *amour-propre* at stake. The overall p/e ratio is used for assessing whether British equities are fairly priced in relation to those overseas, and whether any individual share is expensive or cheap relative to the market as a whole.

The FT-SE version of the other important market indicator, gross dividend yield for the All-Share, has also been showing a marked gap with analysts' calculations.

In August, the official FT-SE figure showed that equities, overall, were yielding 3.74 per cent. Analysts put the figure at 4.07 per cent.

Over the summer, a working party of the FT-SE Actuaries UK indices committee, under the chairmanship of Mr Peter Jones of M&G, has been looking at the issue.

The burden of the work fell on Mr Paul Walton and his colleagues in the research department of James Capel, supplied with data by the FT's statisticians.

After studying the earnings and dividend figures of the companies in the FT-SE Actuaries 350 index, Mr Walton's conclusion was that three main factors explained almost all the gap:

● Timing. FT Statistics calculates the index's earnings figure by adding together each company's two most recent half-years. As soon as a company's interim results are issued, the earnings included in the index figures become those for the latest six months and the second half of the previous financial year. At a company's year end, the figures are its full-year earnings. Brokers, by contrast, use their analysts' estimates of each company's earnings for the current calendar year.

The FT-SE Actuaries numbers are objective, in the sense that they are based on official company data, but they will inevitably always lag behind brokers' estimates. Normally, this generates only a slight difference between the two series, but when earnings are swinging sharply – as when a company moves from loss to profit or from recession to growth – a gap opens.

The recent recession produced a sharp swing in companies' results. In particular, a number of big losses from large companies last year are still in the All-Share earnings figure, but have now dropped out of the brokers'.

Mr Walton's study says that the timing effect is responsible for 1.8 percentage points of the 3 point gap between Capel's p/e estimate and the official All-Share figure. (Capel's p/e estimate is roughly in line with that of other brokers.)

● Unrelieved ACT. The problem of how to treat Advance Corporation Tax arises in acute form for those companies that fail to generate enough UK earnings to offset the ACT they must pay on their dividends. The FT and the brokers adopt different approaches to tackling this problem. However, it is unlikely to be a significant factor in distorting either side's figures; at most it may be responsible for half a percentage point of the three point gap.

● Interpretation. The likelihood that individual companies' results will be treated differently by different compilers has been heightened by the new FRS 3 accounting standard, because more judgment is needed to estimate a company's underlying earnings figure.

FT Statistics, which calculates the index earnings figures, adheres to the definition of headline earnings proposed by the Institute of Investment Management and Research, but this does not always provide unambiguous answers. So differences of opinion will persist.

They tend to cancel each other out, however, and contribute only another half a percentage point to the three point gap.

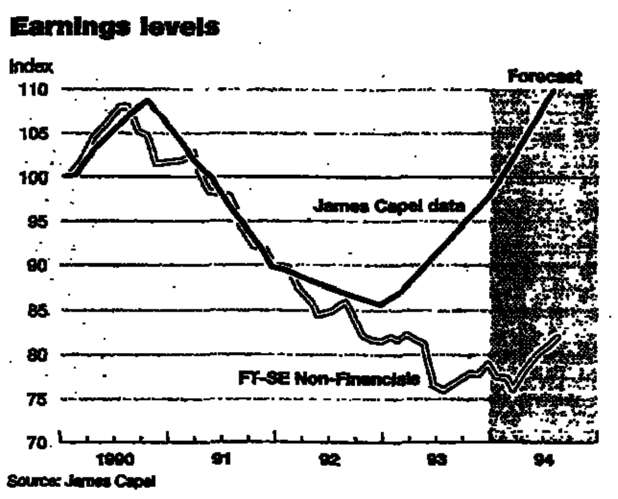
Overall, therefore, only 0.2 percentage points of the gap are left unexplained by Mr Walton's study, a negligible amount. The gap itself can be expected to close over the next few months, as the "bad" earnings figures drop out of the official series.

There are two lessons from this. The sharpness of the swing in earnings during this recession is perhaps partly a reflection of the growing enthusiasm among companies for managing their earnings, a trend which FRS 3 has slowed rather than reversed. There is a great temptation for finance directors, faced with a bad year or half-year, to throw as much bad news in as possible, starting next year with a clean sheet. This exaggerates the timing differences inherent in the two approaches to calculating market earnings.

In addition a market p/e ratio or yield is not a single, monolithic figure suitable for all purposes. The official versions calculated for the indices, which appear each day in the FT, are "objective" numbers, intended to provide the best yardstick of historical performance. Individual brokers, with different objectives, will produce figures which inevitably differ. Such differences are to be welcomed as a sign of diversity of approach, not feared as a weakness of the credibility of the market statistics.

An exposure draft explaining in detail the methods used to calculate the earnings and dividend figures for the FT-SE Actuaries series of indices will shortly be available. Copies may be obtained, when published, from the Indices Unit, London Stock Exchange, London EC2N 1HP and from FT Statistics, One Southwark Bridge, London SE1 9HL.

Earnings levels



Source: James Capel

All-round growth behind Fairey's rise to £12.9m

By Andrew Baxter

Fairey Group, the industrial electronics and specialist engineering concern, boosted first-half pre-tax profits by 26 per cent from £10.2m to £12.9m, and is raising the interim dividend from 1.9p to 2.25p per share.

Sales rose 15 per cent from £63.8m to £73.7m.

Mr John Poulter, chief executive, said excellent growth from the main electronics sector – in spite of some weakness in the insulators business, continuing enhanced margins at aerospace and defence, and improved volume in filtration had combined to produce a "very encouraging" result.

All three business sectors showed improved profits. The electronics and electrical power business lifted operating profit from £7.18m to £8.76m, as turnover rose from £39.2m to £47.8m.

Filtration and specialised ceramics increased operating profit from £1.58m to £1.8m on sales up slightly from £13.3m to £13.9m. Aerospace and defence had profit of £2.03m (£1.33m) on sales of £11.9m (£11.3m).

Overall, said Mr Poulter, there had been an improvement in demand for Fairey's products in most geographic areas and all except one of its main companies was ahead of last year.

The exception was the insulators business, which is facing reduced domestic demand. Its factory at Stafford is being rationalised to reduce its cost base in line with likely future requirements.

In spite of this, however, and some seasonality in Fairey's business which favours the first half, Mr Poulter said "we face the future with considerable confidence".

Net cash at July 2 was £19.1m, up from £16.2m at the end of 1993. The rise partly reflects £2.5m from a property disposal in Tamworth.

Late last month, though, Fairey announced the £9.3m acquisition of Massachusetts-based Imaging Technology, which makes specialised modular computer boards for industrial image processing systems. This will be paid for out of existing resources.

First-half earnings per share rose from 9.2p to 11.2p. Both these and the dividends for last year have been restated to reflect the 1-for-1 capitalisation issue this June.

Perkins' Japanese venture to build compact diesels in UK

By Andrew Baxter

Perkins, the Peterborough-based diesel engine producer, is to create a joint venture with Japan's Ishikawajima-Shibaura Machinery (ISM) to develop and build compact low-emission diesel engines in the UK.

The joint venture company, in which Perkins will be the majority shareholder, will build up to 50,000 compact diesel engines a year by 2000.

Additional jobs will be created at Peterborough for a dedicated facility due to begin production in early 1996. It will, said Perkins, combine the best in European and Japanese technology.

Perkins has been distributing ISM's engines worldwide since 1987, but believes that a joint venture will help it sharply increase its share of the market for compact engines, where demand is rising.

Both companies believe a European manufacturing base will enable delivery times to be reduced significantly. ISM hopes to keep the effect of the production shift on its Matsumoto plant to a minimum by increasing other business.

The 5-50 bhp engines from the venture will be the smallest ever produced by Perkins. The deal will complement the strategic alliance announced earlier this year by Perkins and Iseki, another Japanese company, to build a range of 50-75 bhp engines at Peterborough, starting in 1995.

NEWS DIGEST

UK Safety tops £1m at midway

UK Safety, the specialist footwear manufacturer, reported pre-tax profits of £1.02m on turnover of £15.3m for the six months to July 2.

The outcome compared with a profit of £302,000 on turnover of £5.02m for the 1992 first half. Last year's interim figures however consist of only two months' trading of the group in its present form.

The company came to the market in May last year through the reverse takeover of TSW, the former independent television contractor for the south-west of England.

Mr Colin Dunmore, chairman, said the outcome had been achieved against a background of uneven demand and a competitive marketplace.

The figures had also been depressed by higher net interest costs of £464,000, against positive income of £81,000 received on the large TSW cash balances last time, Mr Dunmore said.

In addition, the first phase of the group's restructuring plans had led to an exceptional cost of £215,000, although this had been more than offset by a £730,000 profit on the disposal of its investment in Socit Europenne des Satellites, he added.

Earnings per share emerged at 1.78p (1.96p) and the interim dividend is being maintained at 1.04p.

Biotrace £0.2m in loss after provision

Biotrace International, the maker of microbiological testing systems which came to the market last November, announced pre-tax losses of £225,000 for the seven and a half months to end-June after an exceptional £565,000 provision for unrealised losses on fixed interest investments.

For the year to July 31 1993 there were pre-tax losses of £113,000. Turnover amounted to £1.95m and losses per share came through at 0.7p.

Mr Brian Levett, chief executive, said the company continued to trade ahead of plan.

Emap makes £7m acquisition

Emap, the media and exhibitions group, has acquired Inter Garden Promotions, the owner of the annual International Garden and Leisure Exhibition for £7m to be satisfied by the issue of Emap loan notes.

GLEE first ran at the National Exhibition Centre in Birmingham in 1976 and currently attracts 700 exhibiting companies occupying 28,000 sq m of stand space and more than 20,000 trade buyers.

Hanson's Scholes offer unconditional

Following clearance from the Office of Fair Trading, Hanson, the Anlgo-US conglomerate, has declared its agreed cash offer for Scholes Group, the electrical equipment maker, unconditional in all respects.

It has received acceptances in respect of 25.8m shares or 67.08 per cent.

American Trust net assets slip

Net asset value per share of American Trust slipped to 288.3p at the end of July, against 308.8p six months earlier.

Net profits for the six months grew to £2.74m (£2.42m) and earnings per share to 3.28p (2.9p) reflecting increased dividends from UK holdings and interest income.

The interim dividend has been raised to 1.9p (1.8p).

Trans Union offer for UAPT lapses

Trans Union's offer for UAPT-Infolink, the British credit reference company, has lapsed.

Although originally recommended by the UAPT board, the Trans Union offer was superseded by a higher £51m offer from Equifax, a US credit data group, which has had 31 per cent acceptance so far.

COMMODITIES AND AGRICULTURE

Aluminium market bullish despite increase in stocks

By Kenneth Gooding, Mining Correspondent

A bigger-than-expected rise in producer stocks reported yesterday took the aluminium market by surprise. But, once the initial impact was absorbed, the news made scarcely a dent on the market's bullish sentiment and the aluminium price seemed determined to keep heading towards US$1,600 a tonne.

Many analysts had been predicting that the International Primary Aluminium Institute (IPAI) would report producer stocks virtually unchanged.

However, the organisation said total stocks, which had fallen every month since February, rose by 80,000 tonnes in July to 3.514m tonnes.

Some traders pointed out that July marked the start of shut-downs for the northern hemisphere summer holidays in many aluminium consuming industries. Also, a fall in London Metal Exchange warehouse stocks in July – by a record 104,000 tonnes – more than compensated for the rise in producer stocks.

They suggested that aluminium would go on to test $1,600 a tonne, which analysts say is the the next important technical resistance point.

There were words of caution from some observers, however. Mr Angus MacMillan, research manager at Billiton-Enthoven Metals, said the aluminium price was getting ahead of itself.

"There are still huge stocks overhanding the market – about 14 weeks of consumption – and eventually the market will realise this and settle down to sideways trading. Things are often overdone in the early stages of a recovery and the first-quarter rise in [aluminium] prices is not sustainable to the year-end."

The output cuts made by aluminium producers so far this year were "having an impact beyond their wildest dreams." As long as the producers stuck to their guns, there would be a supply deficit of about 400,000 tonnes this year and one of 1m tonnes in 1995, he said.

Consequently, Mr MacMillan is forecasting aluminium prices averaging 65 cents a lb this year ($1,433 a tonne) and 75 cents ($1,653) in 1995. Aluminium for delivery in three months on the LME closed last night up $5.25 a tonne at $1,592.

Record soyabean harvest expected

By Laurie Morse in Chicago

The US Department of Agriculture boosted its estimate of this year's soyabean harvest yesterday, saying it would be the largest ever.

The revised forecast of 2.316bn bushels was up from an August estimate of 2.282bn. The previous record was 2.261bn bushels in 1979.

The USDA also raised its prediction for the US maize crop to 9.257bn bushels. It had previously forecast 9.214bn bushels.

Mr William Biedermann, an market analyst for the advisory firm Allendale, Inc., said that projections for US maize production were likely to rise as the harvest continued. "Big crops get bigger," he said.

Although the forecast for record production weighed on soyabean futures prices at the Chicago Board of Trade yesterday, maize prices were higher at mid-session. "The USDA expanded its figures for domestic and export use for corn, so carry-over stocks don't rise," said Mr Jerry Gidel, grain analyst with Dean Witter Reynolds in Chicago.

Wheat prices also rallied as the USDA dropped its world carry-over figure to 119.4m tonnes, supporting traders' belief that the Australian wheat crop would continue to deteriorate. As wheat prices rise, it becomes less competitive with corn for animal feed.

CORRECTION

Mr Michel Bal, project manager responsible for the Sadiola gold project in Mali from 1987 to 1989, has asked us to point out that the deposit was discovered by a German company, Klöckner Industrie-Anlagen, not the Canadian group mentioned in a Financial Times report on August 25.

MARKET REPORT

Nickel up in strong trading

Technical and speculative buying saw nickel's price rise strongly on the London Metal Exchange, and by the close traders were suggesting that the metal was "seriously overbought".

Successive waves of buy-stops were triggered when the price moved through $6,500 and $6,600 a tonne, putting prices on course for a run-up to the year's highs above $6,900 again, traders said. Nickel ended at $6,635 a tonne, up $215 from Friday's kerb (after hours) trading.

Coffee futures ended a thin session firmer as the market kept a nervous eye on the weather in Brazil. The November position was up $29 at $3,984 after peaking at $4,010 in the morning. Weather Services Corporation said dry weather would lead to more losses.

Compiled from Reuters

France seeks lower rate of land set-aside

By David Buchan in Paris

France believes that, if the the European Union does not substantially reduce the share of arable land set aside from production next year, the EU may have to decrease exports or increase imports, officials in Paris said yesterday.

Last week the French government sent the European Commission a long-promised memorandum containing the reforms on which Paris would like to see progress during the French presidency of the EU in the first half of 1995.

In particular, France said it wanted to see the current 15 per cent average rate of "set-aside" in the EU reduced "substantially". Otherwise, the French calculate, EU cereal stocks could fall to close to zero next year after the fall from 20m to 10m tonnes this year. "Such a level would not be manageable" said an agriculture ministry official.

By French calculations, this year's harvest of 158-162m tonnes, plus 5m tonnes of imports, would amount to some 10m tonnes less than the total of anticipated consumption of 140-145m tonnes plus around 33m tonnes of exports. If stocks dropped to near zero "either we would not be able to export as much as permitted by the Gatt or we would have to increase imports", said the official.

Another French aim is to improve the competitiveness of EU agriculture to avoid Gatt-required cuts in subsidised exports.

The limits to subsidising exports were illustrated in the past few days when France failed to firm up a preliminary contract to sell China up to 1m tonnes of wheat because a Brussels offer of a subsidy of Ecus 5 a tonne proved insufficient to bring the price low enough.

Crop fears lift potato prices

Market jitters mean good news for beleaguered British growers

FARMER'S VIEWPOINT

By David Richardson

There is nothing like the suspicion of a shortage to stir up the markets – and the effect this has had on potato prices has put smiles back on the faces of Britain's 15,000 growers.

Paradoxically, prices are rising mainly because the crops growers are harvesting are producing below budgeted yields. Twelve months ago, when last year's potatoes were being lifted, prices paid to farmers were around £60 per tonne. Excess supply kept the average ex-farm price around the same level until June this year.

It was a barely break-even return for even the most efficient growers and resulted in substantial losses. This year has been different – and looks like continuing that way. There are three main reasons for this.

First, last year's losses led to a slight under-planting against quotas in spring 1994 by growers who were feeling insecure. Not only had they madetotally inadequate returns on their 1993 potatoes, they had also been forced to lift them during the wettest for years.

Second, they were aware that the future of the Potato Marketing Board, on which they had relied since the 1930s to support the market, was under threat by Ministry of Agriculture and Fisheries.

Third, the spring was wet, cold and late. This meant that most potatoes were planted several weeks later than optimum, and soil temperatures were too low to promote normal growth.

Early growth and maximum leaf cover before the heat of the summer are crucial to high yields, and in many cases this year that cover was not achieved in time – a problem which was made much worse by the July heatwave. This combination was potentially lethal for the potato crop, and 20 years ago would have led to a truly disastrous shortage.

Fortunately about 60 per cent of UK potato growers are now able to irrigate their crops, saving a great many potatoes from being virtually burned in the soil. It also ensured that, although reduced, domestic supplies should be adequate – with a little luck.

That luck will be needed during the next few weeks as the so-called maincrop potato harvest gets under way. Provided there is not too much rain, the remaining acreage should be gathered safely, guaranteeing supplies until next spring. It is the possibility that the weather could turn wet again – and that this could cause losses when supplies are tight – that is presumably behind the feverish futures market and the high spot prices.

For most farmers are being paid at least £100 per tonne – and in some cases £150 per tonne – more for potatoes this year than last. And the futures price for next May went up last week to £240 per tonne.

Given that this year's anticipated tonnage is 5.5m-5.6m tonnes, compared with about 6.2m tonnes last year, it may appear difficult to understand why prices should be so much higher.

One reason may be that there is a shortage of alternative supplies from Europe. In Amsterdam and Lille, for instance, potato futures markets are said to be even more excited than London's.

The same weather which reduced UK potato yields also affected crops in Holland and France, and those countries which can usually be relied upon as sources of cheap surpluses are unlikely to be able to oblige this year.

There will be plenty of happy faces at this week's potato harvesting demonstration near York, for there are few farm crops which respond to the suspicion of a shortage more dramatically than potatoes.

This buoyancy has led to headlines in the tabloid press saying that retail potato prices will double or more during the coming winter. The sources of these stories can only be guessed at, but are they justified?

Consider these figures: The current ex-farm price for top quality King Edward potatoes is £200 per tonne, or 20p per kg. The wholesale price for the same grade and the same variety is 24p per kg.

But last weekend the retail price for King Edwards, packed in plastic bags of 2.5kg at my local supermarket, was 68p per kg – or £680 per tonne.

Now I am am well aware that packing, transporting and displaying potatoes on shelves costs money. But, although I am only a thick old farmer who does not fully understand such things, I would have thought there was a sufficient margin between the wholesale price and retail price for a fair proportion of the kind of ex-farm increases I have described to be absorbed without significantly affecting profitability.

Retailers often say that consumers prefer price stability. No doubt that is why they hold prices higher than they need to be when wholesale levels fall.

Many farmers believe that policy has governed the retail price of potatoes over a number of years. The coming winter will be an ideal opportunity for those retailers to demonstrate that they really do believe in price stability – even when the market goes modestly against them.

Tesco complains of neglect of customers

By Alison Maitland

The UK potato industry pays too little attention to its customers, Tesco, the supermarket group, said yesterday.

Mr Andrew Batty, Tesco's fresh produce trading manager, told the World Potato Congress in Harrogate, Yorkshire, that consumers wanted quality, value and reassurance that the food they bought was health-giving and produced with the minimum of chemicals. They were also spoilt for choice.

Yet he said: "One of the things that continues to amaze me about our industry is how much emphasis we put on the growing side of the business and how little we put into understanding what the customer wants."

Mr Batty told the Congress, attended by delegates from about 50 countries, that the supply chain had to become more efficient if growers, processors and supermarkets were to make enough money to survive and re-invest.

Tesco has just commissioned research from Adas, the government's farm advisory service, into the feasibility of supply contracts between the group and growers.

Mr Batty acknowledged that growers faced an uncertain future with the abolition of the statutory Potato Marketing Board in 1997.

"In periods of uncertainty it's always best to concentrate on what one does best. It is up to us to get on with the business of selling potatoes, as a team clearly focused on providing what the customer wants."

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1568-9	1591.5-2.5
Previous	1563.5-4.5	1586-7
High/low		1594/1586
AM Official	1565.5-6	1589-9.5
Kerb close		1591-2
Open int.	275,483	
Total daily turnover	51,008	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1570-5	1588-90
Previous	1577-82	1597-8
High/low		1590/1588
AM Official	1570-5	1584-90
Kerb close		1588-92
Open int.	2,939	
Total daily turnover	269	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	611-2	622.5-3
Previous	608.5-9.5	620.5-1
High/low	609	625/620
AM Official	608.5-9	621-1.5
Kerb close		623-4
Open int.	40,893	
Total daily turnover	7,539	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	6480-5	6575-80
Previous	6305-10	6400-5
High/low		6645/6445
AM Official	6380-90	6480-5
Kerb close		6635-40
Open int	53,823	
Total daily turnover	14,628	

■ TIN ($ per tonne)

	Cash	3 mths
Close	5315-25	5390-400
Previous	5345-50	5420-5
High/low		5450/5350
AM Official	5355-60	5430-2
Kerb close		5345-50
Open int.	17,156	
Total daily turnover	4,465	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	972.5-3.5	995-6
Previous	974-5	930-7
High/low		999/993
AM Official	970-0.5	993.5-4
Kerb close		996-7
Open int.	96,918	
Total daily turnover	21,845	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	2407.5-8.5	2514-5
Previous	2461-2	2490-7
High/low	2462	2522/2490
AM Official	2482-2.5	2499-500
Kerb close		2516-6
Open int	215,484	
Total daily turnover	35,635	

■ LME AM Official £/$ rate: 1.5606
LME Closing £/$ rate: 1.5700
Spot:1.5703 3 mths:1.5676 6 mths:1.5649 9 mths:1.5599

■ HIGH GRADE COPPER (COMEX)

	Close	Day's change	High	Low	Open int	Vol
Sep	121.10	+2.25	121.10	119.00	5,448	1,907
Oct	117.65	+1.80	117.85	116.00	1,405	449
Nov	117.05	+1.95	117.00	116.60	674	42
Dec	116.65	+2.00	117.00	114.90	35,835	5,574
Jan	116.35	+1.90	114.75	114.75	539	6
Feb	115.85	+1.80	115.25	115.00	353	44
Total					52,082	8,504

PRECIOUS METALS

■ LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

Gold (Troy oz.)	$ price	£ equiv.
Close	391.20-391.60	
Opening	391.80-392.20	
Morning fix	391.50	250.601
Afternoon fix	391.10	250.721
Day's High	392.20-392.60	
Day's Low	390.80-391.20	
Previous close	391.60-392.10	

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month ....4.36 6 months 4.55
2 months ....4.37 12 months 4.94
3 months 4.41

Silver Fix	p/troy oz.	US cts equiv.
Spot	352.90	551.00
3 months	357.75	557.50
6 months	362.75	564.30
1 year	376.05	580.90
Gold Coins	**$ price**	**£ equiv.**
Krugerrand	394-397	256-258
Maple Leaf	401.80-404.35	-
New Sovereign	91-94	59-62

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Open int	Vol.
Sep	390.9	-0.8	-	-	1	3
Oct	391.9	-0.9	393.0	391.7	9,620	1,666
Nov	393.4	-0.9	-	-	-	-
Dec	394.9	-0.9	395.9	394.6	95,742	49,310
Feb	398.2	-0.9	399.2	398.0	13,447	1,301
Apr	401.5	-0.9	402.0	401.8	6,794	75
Total					164,465	54,848

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Open int	Vol.
Oct	418.7	-2.8	422.5	416.5	15,158	2,517
Jan	422.8	-2.8	426.5	420.5	7,807	782
Apr	426.2	-3.3	431.5	429.0	2,050	102
Jul	429.7	-3.3	435.0	430.0	461	-
Oct	432.4	-3.3	-	-	227	125
Total					25,703	3,526

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Open int	Vol.
Sep	148.85	-3.55	151.00	148.15	91	34
Dec	149.95	-3.80	153.75	147.75	5,517	1,064
Mar	150.70	-3.80	151.00	150.00	977	303
Jun	151.70	-3.80	-	-	51	-
Total					6,636	1,401

■ SILVER COMEX (100 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Open int	Vol.
Sep	547.2	-3.0	549.0	543.5	713	68
Oct	549.0	-3.0	-	-	7	2
Nov	551.0	-3.0	-	-	-	-
Dec	553.5	-3.0	555.5	549.0	82,775	27,574
Jan	555.9	-3.0	-	-	58	1
Mar	561.6	-3.0	564.5	557.0	8,991	410
Total					108,119	28,375

ENERGY

■ CRUDE OIL NYMEX (42,000 US galls. $/barrel)

	Latest price	Day's change	High	Low	Open int	Vol
Oct	17.46	-0.07	17.60	17.43	70,912	49,938
Nov	17.66	-0.01	17.73	17.61	70,668	26,032
Dec	17.85	+0.04	17.90	17.77	50,452	17,585
Jan	17.93	+0.09	17.93	17.82	34,751	4,354
Feb	17.91	+0.05	17.94	17.88	20,019	2,303
Mar	17.90	-	-	-	14,869	2,210
Total					398,962	107,446

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Open int	Vol
Oct	16.29	+0.07	16.35	16.21	59,159	18,675
Nov	16.48	+0.06	16.59	16.39	43,081	11,637
Dec	16.64	+0.04	16.65	16.51	24,870	2,150
Jan	16.63	+0.01	16.78	16.60	11,126	1,166
Feb					5,400	80
Mar	16.72	+0.12	16.72	16.72	3,647	280
Total					N/A	34,780

■ HEATING OIL NYMEX (42,000 US galls; c/US galls.)

	Latest price	Day's change	High	Low	Open int	Vol
Oct	49.90	+0.13	49.85	49.35	39,359	11,348
Nov	50.55	+0.21	50.70	50.35	19,145	1,613
Dec	51.50	+0.17	51.70	51.35	37,857	2,769
Jan	52.30	+0.22	52.45	52.15	23,057	1,304
Feb	52.80	+0.17	52.60	52.50	10,397	1,035
Mar	52.10	+0.37	52.10	52.00	3,606	132
Total					183,585	18,771

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Sep	151.50	-	150.75	149.00	18,680	7,968
Oct	153.25	-1.25	154.00	152.75	35,447	8,153
Nov	156.00	-1.50	156.75	155.75	14,025	1,465
Dec	158.25	-1.50	159.00	158.00	18,479	545
Jan	159.75	-1.50	160.00	159.25	12,398	422
Feb	160.25	-1.50	160.25	160.00	4,632	61
Total					115,446	18,611

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

	Latest price	Day's change	High	Low	Open int	Vol
Oct	1.651	+0.017	1.665	1.625	30,227	7,907
Nov	1.920	+0.027	1.935	1.880	21,429	2,816
Dec	2.105	+0.018	2.120	2.075	27,025	1,542
Jan	2.135	+0.013	2.140	2.115	14,997	793
Feb	2.075	+0.013	2.070	2.055	12,361	541
Mar	2.035	+0.018	2.025	2.010	9,324	475
Total					158,955	16,518

■ UNLEADED GASOLINE
NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Open int	Vol
Oct	47.20	-0.27	47.95	47.05	27,063	15,276
Nov	47.35	-0.28	47.65	47.20	15,788	4,541
Dec	54.60	+0.32	54.65	54.25	9,415	1,714
Jan	53.60	+0.17	53.70	53.55	5,088	671
Feb	53.25	+0.15	53.25	53.20	3,578	522
Mar	54.95	-	-	-	786	108
Total					66,665	23,047

GRAINS AND OIL SEEDS

■ WHEAT LCE (£ per tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Sep	106.25	-0.15	106.25	106.00	195	9
Nov	107.20	-0.30	107.40	107.00	2,778	64
Jan	109.20	-0.35	109.50	109.00	1,806	7
Mar	111.30	-0.50	111.80	111.30	1,098	103
May	113.35	-0.25	113.10	113.10	1,181	5
Jul	115.70	-	-	-	191	-
Total					7,249	188

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Open int	Vol
Sep	380/0	+4/0	382/0	373/4	898	350
Dec	394/4	+4/0	398/0	389/0	48,536	14,613
Mar	401/2	+4/6	402/4	395/0	16,732	2,654
May	386/0	+2/6	390/0	383/0	1,917	278
Jul	356/4	+2/2	359/4	352/0	3,189	426
Sep	360/0	+2/4	360/0	360/0	15	-
Total					71,340	18,321

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Open int	Vol
Sep	224/4	+1/4	225/0	221/2	7,085	3,583
Dec	226/6	+2/6	227/2	222/0	132,021	19,095
Mar	236/2	+2/6	236/4	230/4	32,326	3,444
May	242/4	+2/6	242/4	237/6	12,835	1,065
Jul	246/6	+2/4	247/0	242/0	12,493	885
Sep	248/0	+1/2	248/0	245/6	955	20
Total					203,889	28,265

■ BARLEY LCE (£ per tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Sep	103.60	-0.15	-	-	32	-
Nov	104.60	-0.15	104.65	104.50	490	7
Jan	107.00	-0.10	107.00	107.00	339	3
Mar	109.00	-0.15	109.00	109.00	78	3
May	110.90	-	-	-	21	-
Total					986	13

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Open int	Vol
Sep	567/0	+1/6	568/0	574/0	4,082	753
Nov	580/2	+4/6	581/0	561/0	78,494	14,830
Jan	588/0	+4/6	588/4	571/0	14,982	1,356
Mar	597/4	+5/2	598/0	580/0	7,686	1,405
May	603/0	+3/4	603/0	589/4	4,807	207
Jul	606/6	+4/0	609/0	595/4	8,284	57
Total					122,081	18,287

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Open int	Vol
Sep	26.69	+0.41	26.70	25.95	5,773	2,317
Oct	26.43	+0.45	26.47	25.82	18,538	3,572
Dec	26.13	+0.52	26.18	25.22	38,097	8,631
Jan	25.83	+0.49	25.86	25.02	5,910	440
Mar	25.45	+0.38	25.50	24.70	7,514	1,338
May	25.15	+0.32	25.20	24.40	4,132	153
Total					[illegible]	[illegible]

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Open int	Vol
Sep	172.7	+0.3	173.0	169.9	5,913	1,267
Oct	170.2	-	170.6	168.0	12,846	2,332
Dec	171.2	+0.4	171.5	168.0	36,379	5,976
Jan	172.6	+0.4	172.6	169.5	6,201	668
Mar	173.2	+0.6	173.5	172.5	6,656	462
May	175.0	-	175.2	174.0	4,789	86
Total					79,786	11,083

■ POTATOES LCE (£/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Nov	150.0					
Feb	165.0					
Mar	218.5					
Apr	218.5	-2.5	224.0	218.0	1,424	53
May	240.0					
Nov	107.5					
Total					1,424	53

■ FREIGHT (BIFFEX) LCE ($10/index point)

	Sett price	Day's change	High	Low	Open int	Vol
Sep	1560	+20	1585	1556	471	38
Oct	1568	+18	1580	1565	816	47
Nov	1573	+17	1575	1575	74	3
Jan	1542	+14	1530	1530	596	5
Apr	1550	+20	1565	1550	325	6
Jul	1383	-8	-	-	80	-
Total					2,372	87

	Close	Prev
BFI	1495	1486

SOFTS

■ COCOA LCE (£/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Sep	943	-12	984	960	71	10
Dec	986	-14	1009	985	30,123	3,949
Mar	1017	-16	1040	1016	32,692	3,603
May	1029	-18	1051	1038	11,636	125
Jul	1041	-19	1060	1053	5,508	40
Sep	1057	-14	1082	1056	9,184	77
Total					100,348	7,832

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Open int	Vol
Sep	1280	-8	1285	1285	48	4
Dec	1332	-16	1362	1330	42,270	5,525
Mar	1379	-12	1402	1378	13,823	516
May	1407	-15	1428	1407	3,952	57
Jul	1435	-15	1462	1438	2,539	124
Sep	1455	-15	-	-	1,306	1
Total					72,403	6,227

■ COCOA (ICCO) (SDR's/tonne)

Sep. 9	Price	Prev. day
Daily	1023.40	1000.24

■ COFFEE LCE ($/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Sep	4093	+30	4100	4080	2,106	88
Nov	3982	+27	4010	3980	13,311	2,084
Jan	3923	+10	3960	3815	13,386	332
Mar	3858	-	3870	3850	6,481	222
May	3800	+5	3820	3800	1,538	49
Jul	3780	+15	3800	3795	338	6
Total					37,190	2,758

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Sep	217.50	+8.00	217.50	211.80	188	15
Dec	224.00	+7.00	225.00	216.75	22,732	3,427
Mar	225.95	+8.00	225.95	220.00	7,040	505
May	227.00	+8.00	227.00	221.25	3,070	324
Jul	228.00	+6.00	227.50	224.25	798	74
Sep	229.00	+8.00	225.50	225.00	367	1
Total					34,628	4,395

■ COFFEE (ICO) (US cents/pound)

Sep. 9	Price	Prev. day
Comp. daily	200.43	198.48
15 day average	190.85	188.83

■ No7 PREMIUM RAW SUGAR LCE (cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Oct	12.54	+0.06	-	-	1,801	-
Jan	11.82	-	-	-	-	-
Mar	12.51	+0.02	-	-	90	-
Total					1,891	-

■ WHITE SUGAR LCE ($/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Oct	332.20	+2.60	332.80	330.10	6,154	4,650
Dec	328.70	-	327.70	326.50	3,055	764
Mar	328.60	-0.10	327.90	326.10	8,881	605
May	329.70	+0.30	327.70	326.60	634	149
Aug	328.70	-0.10	327.50	326.90	465	14
Oct	310.20	+0.40	311.00	310.70	231	12
Total					17,856	[illegible]

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Oct	12.36	+0.04	12.35	12.24	27,196	9,048
Mar	12.34	+0.01	12.38	12.30	78,683	7,163
May	12.21	+0.03	12.24	12.17	11,878	1,577
Jul	12.18	+0.03	12.20	12.14	6,805	1,308
Oct	11.98	+0.05	12.00	11.98	2,011	415
Mar	11.59	+0.04	11.59	11.52	611	85
Total					135,094	19,898

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Oct	71.97	-0.33	72.30	71.75	3,294	529
Dec	70.63	-0.50	71.00	70.41	26,708	5,044
Mar	71.76	-0.64	72.15	71.70	9,330	377
May	72.82	-0.63	73.15	72.80	4,985	217
Jul	73.52	-0.51	73.85	73.50	3,494	95
Oct	70.47	-0.03	70.40	70.30	412	5
Total					48,779	6,381

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Sep	84.85	+0.85	84.10	83.50	121	23
Nov	88.25	+0.90	88.30	86.90	11,741	908
Jan	92.10	+1.00	92.20	90.70	5,274	431
Mar	96.00	+1.20	96.10	94.50	3,618	167
May	99.25	+0.25	100.50	99.25	880	3
Jul	101.75	-0.25	-	-	496	1
Total					22,459	1,539

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Oct	69.750	-0.850	71.300	69.650	33,010	6,472
Dec	69.125	-0.825	70.250	68.825	18,541	3,250
Feb	67.550	-0.800	68.650	67.500	11,686	1,140
Apr	69.250	-0.500	70.150	69.225	7,982	384
Jun	66.250	-0.600	67.050	66.250	1,956	94
Aug	66.000	-0.475	66.600	65.950	913	12
Total					74,169	11,363

■ LIVE HOGS CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Oct	38.400	-0.225	38.650	38.300	11,094	1,541
Dec	39.625	-0.050	39.700	39.275	10,696	1,206
Feb	39.775	-0.100	39.950	39.725	3,335	161
Apr	39.200	-0.025	39.350	39.150	1,999	61
Jun	44.450	-0.050	44.450	44.275	644	42
Aug	43.100	-0.050	-	43.100	80	6
Total					28,989	3,093

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Feb	41.425	-1.300	43.000	41.200	7,207	1,013
Mar	41.275	-1.275	42.860	41.150	451	27
May	42.050	-1.650	43.150	42.050	93	5
Jul	43.250	-1.350	44.050	43.000	125	16
Aug	42.700	-0.800	-	42.700	30	2
Total					7,906	1,063

LONDON TRADED OPTIONS

Strike price $ tonne	Calls		Puts	
■ ALUMINIUM (99.7%) LME	Oct	Jan	Oct	Jan
1560	49	157	19	47
1575	34	99	29	87
1600	23	58	43	144
■ COPPER (Grade A) LME	Oct	Jan	Oct	Jan
2400	117	157	9	47
2500	48	99	39	87
2600	13	58	104	144
■ COFFEE LCE	Nov	Jan	Nov	Jan
3600	456	541	74	226
3650	420	512	88	249
3700	385	484	103	271
■ COCOA LCE	Dec	Mar	Dec	Mar
975	53	100	42	58
1000	41	87	56	70
1050	25	65	86	98
■ BRENT CRUDE IPE	Oct	Nov	Oct	Nov
1550	-	-	-	33
1600	4	49	-	53
1700	2	31	-	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel/Oct)		+or-
Dubai	$15.44-5.48t	-0.105
Brent Blend (dated)	$15.87-5.89	-0.076
Brent Blend (Oct)	$16.25-6.27	-0.155
W.T.I. (1pm est)	$17.50-7.51	-0.185
■ OIL PRODUCTS NWE prompt delivery CIF (tonne)		
Premium Gasoline	$183-187	-3.0
Gas Oil	$154-155	-2.0
Heavy Fuel Oil	$71-72	
Naphtha	$160-161	-1.5
Jet fuel	$172-173	-1.5
Petroleum Argus assessments		
■ OTHER		
Gold (per troy oz)♣	$391.40	-0.45
Silver (per troy oz)♣	548.5c	-2.0
Platinum (per troy oz.)	$419.50	+1.20
Palladium (per troy oz.)	$151.75	-0.60
Copper (US prod.)	123.0c	+1.0
Lead (US prod.)	38.25c	
Tin (Kuala Lumpur)	13.52m	+0.09
Tin (New York)	245.5c	-4.0
Cattle (live weight)†©	117.58p	-0.69*
Sheep (live weight)†♠©	88.03p	-0.97*
Pigs (live weight)©	72.82p	-1.05*
Lon. day sugar (raw)	$304.10	-2.60
Lon. day sugar (wte)	$342.50	-1.50
Tate & Lyle export	£307.00	-4.00
Barley (Eng. feed)	£107.0w	
Maize (US No3 Yellow)	$136.0	
Wheat (US Dark North)	£180.0	
Rubber (Oct)♥	86.00p	-1.00
Rubber (Nov)♥	85.00p	-1.00
Rubber KL RSS No1 Aug	313.00m	
Coconut Oil (Phil)§	$805.0z	-15.0
Palm Oil (Malay.)§	$595.0t	-12.5
Copra (Phil)§	$389.0	
Soyabeans (US)	£165.00u	
Cotton Outlook 'A' Index	78.00c	-0.15
Wooltops (64s Super)	468p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. u Nov. t Oct. z Sep/Oct. w Sep. ♥ London Physical. § CIF Rotterdam. ♣ Bullion market close. ♠ Sheep (Live weight prices). * Change on week. © Prices are for previous day.

Tea

The good general demand continued, reports the Tea Brokers' Association. Quality and good medium Assams sold well at around last levels, but medium types were easier. Brightest east Africans were fully firm, with mediums and coloury central Africans often dearer. Low mediums remained steady. Ceylons sold readily at dearer levels, with the brighter lines 5-8p dearer. Good demand at firm rates. The few Assams on offer were unsold. Quotations: best available 200p/kg, good 145p/kg, good medium 135p/kg, medium 120p/kg, low medium 85p/kg. The highest price realised this week was 250p/kg for an Assam pf.

VOLUME DATA

Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears.

INDICES

■ REUTERS (Base: 18/9/31=100)

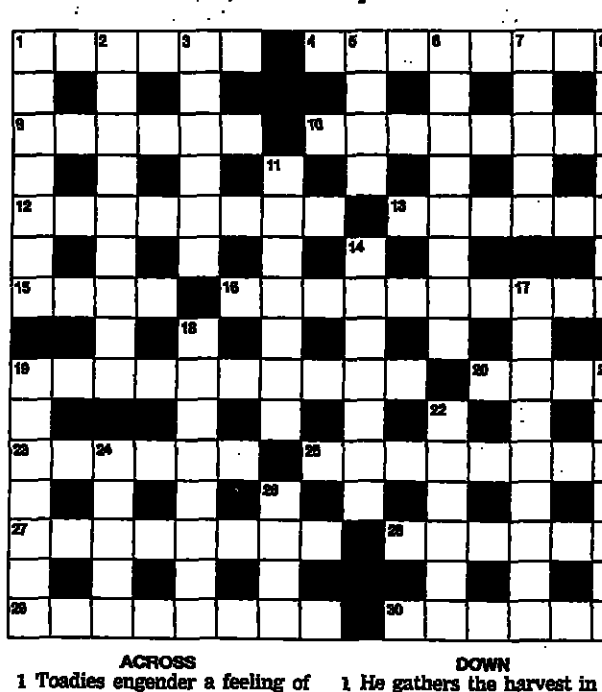
Sep 12	Sep 9	month ago	year ago
2089.0	2082.5	2060.9	1636.5

■ CRB Futures (Base: 1967=100)

Sep 9	Sep 8	month ago	year ago
232.94	232.69	229.70	213.17

CROSSWORD

No.8,557 Set by DANTE



ACROSS

1 Toadies engender a feeling of revulsion (6)
4 Famous actor needs projection to reach his audience (4-4)
9 It's unpleasant but return to discharge debts (6)
10 A double-first (4,4)
12 Waiting without complaint for a game (8)
13 One insect let out another (6)
15 Utter a line (4)
16 A swinging alternative! (10)
19 Attribute of the successful gear selector (5,5)
20 Macho boss (4)
23 He helps soldiers to dress (6)
25 Pushed the boat out in Paris? (4,4)
27 Note strange sort of desperado (8)
28 Indeed upset when refused (6)
29 The way the firm do things? (8)
30 Master-switch for the current (6)

DOWN

1 He gathers the harvest in the fall (7)
2 Being in the wrong scene with the wrong exit (9)
3 Hesitated to have father taken advantage of (6)
5 I dry up dessert dishes (4)
6 Evil dame around a long time ago (8)
7 Lifting the foot (5)
8 About to shout the order to withdraw (7)
11 O to be in credit for one month! (7)
14 It's sweet, I observe, and round (7)
17 Raise cost somehow, or get cut off (9)
18 Estimated tax liability? (8)
19 Mother takes a long time obtaining reparation (7)
21 A noble estate (7)
22 Way in which Somerset folk live (6)
24 Row in the kitchen (5)
26 Went over the hill (4)

Solution to Saturday's prize puzzle on Saturday September 24.
Solution to yesterday's prize puzzle on Monday September 26.

LONDON STOCK EXCHANGE

MARKET REPORT

Equities stand up well after base rate news

By Terry Byland,
UK Stock Market Editor

The ½ percentage point rise in the Bank of England's key lending rate failed to upset the UK stock market to any significant degree. Market strategists applauded Mr Kenneth Clarke, the chancellor of the exchequer, for his courage in making a pre-emptive strike on base rates, without waiting for inflationary pressures to reach threatening proportions. The rate increase was thought unlikely to check significantly the recovery in the UK economy, or in company profits and dividends.

By the close of trading the FT-SE 100-share Index had recovered more than half of its initial fall, with the final reading of 3,128.8 showing a net loss of only 10.5 points – by no means a serious setback. The equity market took its lead from the UK government bond market, where long-dated issues closed very firmly. At least one leading securities house raised its forecasts for both the UK economy and the Footsie index, while at the same time predicting that interest rates could reach 8 per cent by the end of next year.

The timing of the Bank's move caught out some traders who had relaxed their interest rate caution after last week's meeting between the chancellor and the Governor of the Bank of England had appeared to pass off without drama.

But the disclosure yesterday morning that UK producer output prices had risen by an unexpected 0.3 per cent in August halted an initial improvement in share prices and gave the market 20 minutes warning of a possible move on interest rates.

Shares quickly plunged when the news came, driven by determined selling of stock index futures by the locals, or independent, futures traders.

Within an hour, the Footsie had transformed a 1.9-point gain to a loss of 25.3. However, the 3,114 mark proved to be the day's low and most of the gain had been recovered as London waited for Wall Street to reopen after its uncomfortable session on Friday.

In the event, Wall Street was only 3 Dow points off in UK hours, but sudden weakness in the US dollar hit the blue chip international stocks in the UK market and pushed the Footsie down again.

The focus also fell on interest-related stocks. Store and retail issues performed fairly well, with the leaders showing either very modest losses or, in some cases, holding steady. There were casualties among the housebuilding companies, which faced two adverse factors; higher base rates hit their costs and the danger of a rise in mortgage rates – some building societies said yesterday they would raise rates – threatens the still fragile recovery in the housing market.

The second line stocks, having joined in the general shakeout in the market, were slower than the blue chips to respond to the improvement in bonds. The FT-SE Mid 250 Index closed 22.7 down at 3,713.3.

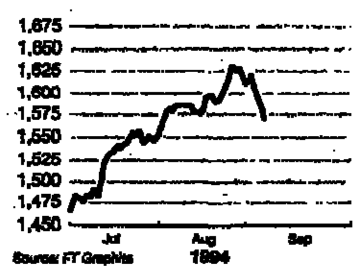
But trading volumes were moderate, with the Seaq-reported total of 484.6m some 25 per cent down from Friday's figure. Retail business on Friday was worth £1.26bn.

By the close, the market's attention was switching to prospects for today's US consumer prices data, which could renew the pressures on the Federal Reserve caused by the producer price figures announced before the weekend.

There was also uncertainty ahead of the Bundesbank policy meeting on Thursday, with some analysts suggesting that German rates could still be reduced.

On the domestic front, the market faces the retail price index for August, due tomorrow. Although any sting in these figures appears to have been drawn by the pre-emptive move on base rates, some traders warned that any sharp rise in RPI could still upset the stock market.

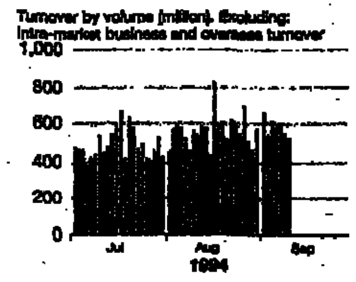
FT-SE-A All-Share Index



Source: FT Graphite

Equity Shares Traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover



■ Key Indicators

Indices and ratios

FT-SE 100	3128.8	-10.5
FT-SE Mid 250	3713.3	-22.7
FT-SE-A 350	1582.9	-6.3
FT-SE-A All-Share	1572.85	-6.13
FT-SE-A All-Share yield	3.81	(3.79)
FT Ordinary index	2425.3	-1.3
FT-SE-A Non Fins p/e	19.38	(19.47)
FT-SE100 Fut Sep	3112.0	-14.0
10 yr Gilt yield	8.82	(8.88)
Long gilt/equity yld ratio:	2.31	(2.34)

Best performing sectors

1	Insurance	+1.2
2	Life Assurance	+0.8
3	Spirits, Wines & Cider	+0.4
4	Retailers, Food	+0.3
5	Household Goods	+0.2

Worst performing sectors

1	Building & Construc	-2.2
2	Telecommunications	-1.2
3	Transport	-1.2
4	Water	-1.1
5	Building Materials	-1.0

Building sector upset

News of the ¼ percentage point rise in UK interest rates shocked the building and property sectors of the markets and caused marketmakers to mark down share prices in those groups to head off any selling pressure.

In the event there was no heavyweight selling in either sector. Share prices embarked on a modest rally later in the session, although they closed well down on the day.

One leading marketmaker in building stocks said the sector had been under substantial pressure last week when serious talk of possible interest rate rises first began to circulate. "Most of the selling was done then; if anything, the rate rise has cleared the air," he said.

Building sector analysts took the view that the market had mostly factored in rate rises. Mr Simon Brown, building analyst at SGST Securities, commented: "The impact on the housebuilders will be more psychological than actual. If anything it could tip prospective buyers over the edge. If they think interest rates are going up they will want to move quickly to close their mortgage arrangements."

Analysts said the rate rise would have little impact on the big building materials groups, which derive much of their earnings from overseas.

In the housebuilders, Barratt Developments dropped to 191p before steadying to close a net 14 off at 214p; the company reports interim figures next Wednesday. Wilson Connolly dipped 8 to 203p and Wilson Bowden 11 to 397p.

Land Securities, the premier property stock in the UK market, fell 7½ to 615½p, with a hefty 2.6m shares traded, and MEPC was 5 easier at 430p.

SmithKline firm

The market decided that SmithKline Beecham had secured a good price for the US over-the-counter arm of its recently acquired Sterling Health business. The shares shrugged off interest rate concerns to move up 7½ before closing 4 ahead at 425½p.

SmithKline sold the business to Bayer, of Germany, which some analysts believed had been prepared to pay a premium for the emotional content of the acquisition. The company, which invented aspirin, lost title in the US after the First World War as a result of allied reparation demands.

Mr Robin Gilbert of Panmure Gordon had factored in between $600m and $700m for the disposal and was surprised that it had achieved $1bn. He said the move would go a considerable way to dispersing the gloom over SmithKline's gearing, which had leapt to a very high level following the $2.7bn acquisition of the entire Sterling Health business.

Kingfisher unsettled

Stores group Kingfisher saw an early gain clipped back as worrying stories of executive changes moved through the market ahead of the company's interim figures due today.

The Woolworths and B&Q parent has suffered from what many in the market see as an unsuccessful sales policy known as "Every day Low Pricing", and concern over the competition in the DIY market from Home Depot, of the US. Full-year forecasts have edged down and the share price has tumbled from almost 780p at the peak in December.

There was talk yesterday that Mr James Kerr-Muir, the finance director who replaced current Asda chairman Archie Norman, could be under pressure. But there is also thought to be little love lost between chairman Sir Geoffrey Mulcahy and Mr Alan Smith, the chief executive. Kingfisher had been up 6 but ended the day only 2 better at 490p.

Banks and insurances were among the market's best performing areas, with the former given a strong push by the move to higher interest rates in the UK, which dealers said would help boost margins for the banks.

Barclays was the star performer, racing up 10 more to 595p, helped by recent broker buy recommendations; turnover was 6.6m shares.

The sharp slide on the Hong Kong market, ahead of the visit by Mr Douglas Hurd, the UK home secretary, later this week, upset HSBC Holdings, which fell 11 to 737p and put pressure on Standard Chartered, 4 cheaper at 287p.

Composite insurances attracted solid support and were not badly affected by reports of an earth tremor in the US. Guardian moved up 6 to 193p, Royals 7 to 181p and General Accident 10 to 564p.

Prudential was the pick of the life assurances, closing 4½ firmer at 315½p at the start of an important week which brings interims from Prudential, Legal & General and United Friendly.

Clothes retailer Country Casuals fell 32 to 120p after warning that full-year profits would be below expectations.

Meanwhile, Liberty dropped 33 to 355p after announcing losses of £301,000 in the six months to July, against profits of £601,000 previously.

There was more news of share buy-backs in the utilities areas of the market. PowerGen settled 2 easier at 569p after buying a block of 2.5m shares at 573p.

In the regional electricity stocks, Seeboard purchased 1m shares at 434p; its shares eased 6 to 434p.

Transport shares came under pressure on the back of a reappraisal of debt worries following the increase in bank base rates.

Eurotunnel tumbled 9 to 270p and British Airways, another heavy borrower, ended 5 lower at 397p. Ahead of tomorrow's half-year statement, Associated British Ports fell 13 to 289p, not helped by bearish comment in the weekend press.

British Aerospace ended the day unchanged at 497p in the wake of denials of a deal with Germany's corporate monolith Daimler-Benz. Weekend press comment to the effect that BAe was discussing the sale of its business interests in Airbus Industrie were flatly denied by the company, with BAe declaring itself "absolutely committed to Airbus".

Fairey, the defence electronics group, jumped 18 to 389p following a surge in profits.

Circulation figures for August led to cautionary reading for News International, the Murdoch group which sparked off the newspaper price war. S.G. Warburg pointed out to clients that while Sun sales rose 0.2 per cent, the sales of its chief rivals, the Mirror and Daily Record, rose a combined 2.1 per cent. At the other end of the spectrum, sales of Mr Murdoch's Times were down 0.5 per cent, while the Telegraph had rebounded 1.9 per cent. News International fell 11 to 239p and Mirror Group was steady at 137p. The Telegraph slipped 5 to 349p.

MARKET REPORTERS: Peter John, Jeffrey Brown, Steve Thompson, Ramraj Gogna.

■ Other statistics, Page 30

NEW HIGHS AND LOWS FOR 1994

NEW HIGHS (30).
BLDG MATLS & MCHTS (2) Kingspan, Sharpe & Fisher, DISTRIBUTORS (2) Brammer, Spandex, ELECTRNC & ELECT EQUP (1) Fairey, ENGINEERING (3) Domnick Hunter, Spirax-Sarco, Tinsley (E), ENG. VEHICLES (1) UPF, EXTRACTIVE INDS (3) Harmony, Ivernia West, Stillwater, FOOD MANUF (1) Greencore, HEALTH CARE (1) Midland Assets, HOUSEHOLD GOODS (1) Royal Doulton, MEDIA (2) Int'l. Business Comms., Taylor Nelson, PHARMACEUTICALS (2) Astra B, British Biotech, RETAILERS, GENERAL (3) Austin Reed, Etam, Oliver, SPIRITS, WINES & CIDERS (1) Macdonald Martin A, SUPPORT SERVS (4) Computer People, Real Time Control, Reed Executive, Reliance Security, TRANSPORT (1) National Express, CANADIANS (1) Can. Pacific, SOUTH AFRICANS (1) SASOL.

NEW LOWS (90).
GILTS (23) BANKS (2) Bank of Scotland 9 3/4pc Pf., Standard Chrtd. 7 3/8pc Pf., BUILDING & CNSTRN (8) Beazer Homes, Boot (H), Gleeson (MJ), Laing (J) 6.4pc Cv Pf., Tilbury Douglas, BLDG MATLS & MCHTS (2) Graham, Heywood Williams Cov. Pf., CHEMICALS (2) Cerestone, Sutcliffe Speakman, DISTRIBUTORS (4) Appleyard, Bletchley Motor, Cowie, Pendragon, DIVERSIFIED INDLS (2) Hanson Warrants, Do 9½pc Cnv. Bd., ENGINEERING (3) Hunting, Newmark (L), EXTRACTIVE INDS (2) Bracken, Pacific Aso Expln., FOOD MANUF (1) Bols Wessanen, HEALTH CARE (1) Eyecare Products, HOUSEHOLD GOODS (1) Cornwell Parker A, INSURANCE (1) Marsh & McLennan, INVESTMENT TRUSTS (8) INVESTMENT COMPANIES (2) Indonesia Equity Wrts., Spanish Smlr Wrrts., LEISURE & HOTELS (2) Barr & Wallace Arnold, Thing Int'l. OTHER FINANCIAL (3) Bancaire Cie, Energy Capital, OTHER SERVS & BUSNS (1) Atwoods, PROPERTY (4) RETAILERS, GENERAL (3) Country Casuals, Partridge Fine Arts, SUPPORT SERVS (3) Coutts Consulting, ISS–Int Serv. Sys. B, MR Data Management, TEXTILES & APPAREL (1) Parkland, TRANSPORT (3) CSX, Eurotunnel Wts. '93, NFC, AMERICANS (4).

EQUITY FUTURES AND OPTIONS TRADING

Stock index futures ran into some heavy selling following the announcement of higher UK interest rates, but staged a good rally later when trading volume died down.

At the close the September contract on the FT-SE 100 Index, which expires at the end of the week, stood at 3,112, a discount of 16 to the underlying cash market, with the fair value premium adjusted to around 3 points to allow for the rise in interest rates on carrying costs.

The selling came mostly from the locals, or independent, traders, with one source hitting the contract hard. In the hectic period following the Bank of England's announcement, the contract dropped to a low of 3,101, only to recover strongly and reach a high for the day of 3,140 in mid-afternoon.

Trading volume of just under 18,000 September contracts was high but not by any means dramatic, and included a significant proportion of roll-over deals into the December contract. Traders believe that most of these deals have now been completed, opening the way for a smooth expiry operation on Friday.

Volume in traded options increased to 42,477 contracts, from under 41,000 on Friday, but the Footsie option saw reduced activity of 12,872 lots. Among individual stock options, Hanson was the most active with 2,647 dealt.

■ FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	3132.0	3112.0	-14.0	3140.0	3101.0	17938	30757
Dec	3148.0	3125.0	-14.0	3158.0	3117.0	7193	30077
Mar	3150.0	3150.0	-14.0	3160.0	3160.0	100	575

■ FT-SE MID 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	3715.0	3690.0	-47.0	3715.0	3690.0	419	3608
Dec	3737.0	3713.0	-44.0	3738.0	3713.0	443	1522

■ FT-SE MID 250 INDEX FUTURES (OMLX) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep		3689.5					836

All open interest figures are for previous day. † Exact volume shown.

■ FT-SE 100 INDEX OPTION (LIFFE) (*3127) £10 per full index point

[illegible]		

■ EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

[illegible]		

■ EURO STYLE FT-SE MID 250 INDEX OPTION (OMLX) £10 per full index point

[illegible]		

TRADING VOLUME

■ Major Stocks Yesterday

	Vol. 000s	Closing price	Day's change
ASDA Group†	9,400	65¼	+1¼
Abbey National†	2,200	399	+3
Albert Fisher	511	48	-1
Allied-Lyons†	776	587	-3
Anglian Water	665	564	-5
Argos	84	347	-2½
Argyll Group†	2,600	281½	+3½
Arjo Wiggins†	1,500	278	+2
Assoc. Brit. Foods†	179	578½	+7½
Assoc. Brit. Ports	836	289	-13
BAA†	2,000	483	-5
BAT Inds.†	2,100	430	-4
BET	537	106	
BICC	810	401½	+1½
BOC†	725	725	+1
BP†	9,300	414½	-3½
BPB Inds.	1,000	308	-3
BT†	8,400	385	-4
BT (P/Paid)	6,400	265	-4½
BTR†	11,000	331½	+2½
Bank of Scotland†	1,500	208½	+3
Barclays†	6,600	595	+10
Bass†	698	569	-3
Blue Circle†	1,000	295	+2
[illegible]			

FT - SE Actuaries Share Indices — The UK Series

[illegible]		

■ FT-SE Actuaries All-Share

[illegible]		

■ Hourly movements

[illegible]		

■ FT-SE Actuaries 350 Industry baskets

[illegible]		

LONDON EQUITIES

LIFFE EQUITY OPTIONS

[illegible]		

FT GOLD MINES INDEX

[illegible]		

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	28	41	1
Other Fixed Interest	3	0	12
Mineral Extraction	23	84	91
General Manufacturers	72	189	383
Consumer Goods	26	64	109
Services	70	129	301
Utilities	6	31	10
Financials	54	122	180
Investment Trusts	18	174	275
Others	18	70	16
Totals	316	892	1387

Data based on those companies listed on the London Share Service.

TRADITIONAL OPTIONS

First Dealings	September 12	Expiry	December 8
Last Dealings	September 23	Settlement	December 22

Calls: STR Wts '94/5, Chiroscience, OEM, Magnum Power, Premier Cons, Tadpole Tech, VideoLogic. Puts: Tie Rack, Tadpole Tech. Puts & Calls: Magnum Power.

LONDON RECENT ISSUES: EQUITIES

[illegible]		

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renun. date	1994 High	1994 Low	Stock	Closing price p	+or-
380	Nil	21/10	48pm	41pm	EMAP	41pm	-5

FINANCIAL TIMES EQUITY INDICES

[illegible]		

LONDON SHARE SERVICE

BANKS

	Notes	Price	+ or -	1994 high	low	Mkt Cap£m	Yld Gr's	P/E
ABN Amro Fl		£21$\frac{11}{16}$	$-\frac{1}{4}$	£25$\frac{1}{8}$	£20$\frac{11}{16}$	6,687	5.1	ф
ANZ A$		186	----	278$\frac{1}{4}$	179$\frac{3}{4}$	2,475	5.1	27.9
Abbey National	†N☐	399xd	+3	523	381	5,284	4.9	13.4
Allied Irish IE	‡†N☐	256xd	-2	314	234	1,685	4.9	9.8
Anglo Irish IE	N☐	60	----	*70	50	285.6	7.2	11.0
Asahi Y		862	+6$\frac{1}{2}$	819$\frac{1}{4}$	628	15,830	0.7	ф
Banco Bil Vz Pta		£15$\frac{1}{16}$	$-\frac{1}{8}$	£18$\frac{7}{16}$	£14$\frac{1}{16}$	3,474	5.5	6.7
Banco Sant Pta		£25$\frac{1}{2}$	----	*230$\frac{1}{2}$	£23$\frac{1}{4}$	3,948	5.5	9.1
Bk Ireland IE	‡☐	283	-2	*319	246	1,337	4.6	8.2
Bank Scotland	‡N☐	209$\frac{1}{2}$	+3	247	172$\frac{1}{2}$	2,444	3.0	17.1
9$\frac{1}{4}$pc Pf		113	$+\frac{1}{2}$	141$\frac{1}{2}$	112	113.0	10.2	–
9$\frac{3}{4}$pc Pf		117$\frac{1}{4}$	$+\frac{1}{4}$	148$\frac{1}{2}$	117$\frac{1}{4}$	117.8	10.4	–
Barclays	‡†N☐	585xd	+10	640	487	9,686	3.5	18.4
Dai Ichi Kan Y		£11$\frac{1}{8}$	$-\frac{1}{8}$	£12$\frac{21}{32}$	£10$\frac{7}{8}$	34,700	0.5	–
Deutsche DM		£298$\frac{15}{16}$	-6$\frac{1}{8}$	£344$\frac{1}{4}$	£270$\frac{1}{2}$	14,120	2.3	–
Espirito Santo		£10$\frac{11}{16}$	$-\frac{1}{2}$	*£13$\frac{1}{2}$	£9$\frac{15}{16}$	222.4	3.7	5.2
First Nat Fin	N☐	72	+1	*90	60	121.5	2.6	–
6.3pc Cv Pf		77	----	*90	77	5.18	10.2	–
7pc Cv Pf		120$\frac{1}{2}$	+1$\frac{1}{2}$	171	123	61.5	6.8	–
Fuji Bank Y		1332	-16	1649$\frac{1}{4}$	1152$\frac{1}{2}$	38,583	0.4	ф
HSBC HK	†N☐	795xd	-13	1123	680	13,212	4.1	10.9
HSBC (75p Shs)	†N☐	737xd	-11	1113	660	6,264	4.2	10.7
Lloyds	†N☐	557xd	+5	680	519	7,213	5.2	11.0
Mitsubishi Y		£15$\frac{1}{4}$	$+\frac{7}{32}$	£18$\frac{13}{32}$	£15$\frac{1}{16}$	45,522	0.3	ф
Mits Tst & Bk Y		885$\frac{1}{2}$	+5$\frac{1}{2}$	1162$\frac{1}{4}$	687$\frac{1}{2}$	10,730	0.6	14.0
Mitsui Tst & Bk Y		682	-29$\frac{1}{4}$	879	514	8,173	0.8	22.6
Nat Aust A$	†	494	----	620$\frac{1}{4}$	489$\frac{1}{4}$	6,812	5.7	10.3

BREWERIES

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ELECTRONIC & ELECTRICAL EQPT - Cont.

ENGINEERING

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

FOOD MANUFACTURERS

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Cont.

HOUSEHOLD GOODS

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

[illegible]

OTHER INVESTMENT TRUSTS

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LEISURE & HOTELS - Cont.

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

MERCHANT BANKS

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL EXPLORATION & PRODUCTION - Cont.

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

OTHER SERVICES & BUSINESSES

[illegible]

PHARMACEUTICALS

[illegible]

PRINTING, PAPER & PACKAGING

[illegible]

PROPERTY

[illegible]

PROPERTY - Cont.

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

RETAILERS, GENERAL - Cont.

[illegible]

SPIRITS, WINES & CIDERS

[illegible]

SUPPORT SERVICES

[illegible]

TELECOMMUNICATIONS

[illegible]

TEXTILES & APPAREL

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

TRANSPORT - Cont.

[illegible]

WATER

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

[illegible]

GUIDE TO LONDON SHARE SERVICE

[illegible]

... ACT where applicable. Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- * Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ϕ Figures or report awaited
- ♦ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ⚘ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Rule 4.2(a) UK & Irish incorporated non-listed companies.
- ⁜ *Price at time of suspension*
- ¶ Indicated dividend yield after pending scrip and/or rights issue.
- ✦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend. b Figures based on prospectus or other official estimates. c Cents. f Flat yield. g Assumed dividend yield after rights issue. h Assumed dividend yield after scrip issue. n Rights issue pending. q Earnings based on preliminary figures. s Dividend yield excludes a special payment. t Indicated dividend yield, p/e ratio based on latest annual earnings. u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings. v Not subject to ACT. z Dividend yield includes a special payment. F Yield based on prospectus or other official estimates for 1994-95. G Assumed yield after pending scrip and/or rights issue. H Yield based on prospectus or other official estimates for 1993. K Yield based on prospectus or other official estimates for 1994. L Estimated annualised yield, p/e based on latest annual earnings. M Yield based on prospectus or other official estimates for 1993-94. N Figures based on IMR 'Headline Earnings' P Figures based on prospectus or other official estimates for 1994. R Forecast annualised yield, p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend yield to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xp ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1235 a year for each security shown, subject to the Editor's discretion

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FT Cityline

Up-to-the-second share prices are available by telephone from the FT Cityline service. See Monday's share price pages for details.

An international service is available for callers outside the UK, annual subscription £250 stg. Call 071-873 4378 (+44 71 873 4378, international) for more information on FT Cityline.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

AUTHORISED UNIT TRUSTS

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (✓) - 0001 to 1100 hours; (●) - 1101 to 1400 hours; (▲) - 1401 to 1700 hours; (#) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH Tel: 071-379-0444.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

Waverley Unit Tst Mngmt Ltd (1000)F

Acuma Life Assurance Ltd

Clerical Medical/Fidelity Investments

Friends Provident - Contd.

OTHER UK UNIT TRUSTS

INSURANCES

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

	Bid Price	Offer Price	+ or -	Yield Gross

Scottish Mutual Assurance plc

109 St Vincent St, Glasgow 041-248 6321

[illegible]

Scottish Provident Group

6 St Andrew Sq, Edinburgh 031-556 2552

Scottish Provident Institution Funds

Life Funds

[illegible]

Sun Alliance Group - Contd.

Property Growth Pension Funds

[illegible]

Sun Life Unit Assurance Ltd

St James Barton, Bristol BS99 7SL 0272 426911

[illegible]

Century Life International Ltd

[illegible]

Eagle Star Intl Life

[illegible]

OFFSHORE INSURANCES

MANAGEMENT SERVICES

[illegible]

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

[illegible]

GUERNSEY (SIB RECOGNISED)

[illegible]

GUERNSEY (REGULATED)(**)

[illegible]

IRELAND (SIB RECOGNISED)

[illegible]

IRELAND (REGULATED)(**)

[illegible]

ISLE OF MAN (SIB RECOGNISED)

[illegible]

ISLE OF MAN (REGULATED)(**)

[illegible]

JERSEY (SIB RECOGNISED)

[illegible]

JERSEY (REGULATED)(**)

[illegible]

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

Worldinvest (Managers) Jersey Ltd

LUXEMBOURG (SIB RECOGNISED)

Gartmore Luxembourg SA (a)

S.G. Warburg Asset Mngmt Lux SA - Contd.

LUXEMBOURG (REGULATED)(**)

InverSud Investment Fund SICAV

World Bond Fund—SICAV (z)

World Trust Fund

Yamaichi Advanced Technology Fund

Yamaichi 1992 Olmi Fund SICAV (z)

OTHER OFFSHORE FUNDS

Ermitage Group - Contd.

Europe 1992

Jardine Fleming Unit Trusts Ltd - Contd.

Johnson Fry Securities Ltd

Jupiter Tyndall (Bermuda) Ltd

Putnam Embassy Funds Ltd

Putnam International Advisers Ltd

MANAGED FUNDS NOTES

CURRENCIES AND MONEY

MARKETS REPORT

UK rates rise ½ per cent

Sterling made good gains yesterday after the Bank of England's unexpected decision to lift the minimum lending rate by 50 basis points to 5.75 per cent, *writes Philip Gawith.*

The pound rose 1½ pfennigs, and more than one cent, on the news before levelling out to close in London at DM2.4117 and $1.5626, from DM2.3914 and $1.5509 on Friday. The trade weighted index finished at 79.1 from 78.6.

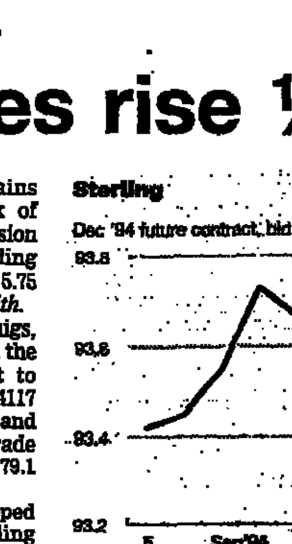
Analysts, however, stopped short of saying that sterling had managed to detach itself from the downtow of the dollar. The rate move appears to have put a floor under the currency, rather than to have necessarily given it any significant upside momentum.

Sterling futures lost a lot of ground, with the September contract trading 38,000 lots to close nearly 40 points lower, at 94.07 from 94.47. The December contract traded nearly 88,000 lots to finish at 93.30, thirty-seven basis points down on Friday's closing price of 93.67.

The rise in UK rates overshadowed activities in Europe where most currencies had a generally quieter day.

The dollar was slightly firmer on the D-Mark, but weaker against the yen ahead of today's release of the August consumer price index. The release will be closely watched following the dollar's two pfennig drop last Friday, on news that the August PPI rose by 0.6 per cent.

The dollar finished in London at DM1.5435, from DM1.5419, and at Y98.985, from Y99.265.



Source: FT Graphite

■ Pound in New York

Sep 12	—Latest—	— Prev. close —
£ spot	1.5595	1.5530
1 mth	1.5578	1.5527
3 mth	1.5557	1.5515
1 yr	1.5524	1.5412

■ The decision to raise rates was widely, though not universally welcomed. Most saw it as a timely pre-emptive strike against inflation.

Mr Kenneth Clarke, the chancellor, boosted his credibility through his apparent willingness to place the economy above party politics.

The Bank of England's reputation was also enhanced, in the eyes of some. Mr Jeremy Hawkins, chief economist in London at the Bank of America: "The clear message is that the Bank of England has much more independence in setting monetary policy than it has had in its history." He said this had to be a plus factor for sterling, in the long term.

Although the decision to raise rates caught most offside, it did not come entirely out of the blue. Mr Philip Shaw, economist at Union Discount, noted that three month sterling LIBOR had been above base rates since July. The Bank had made no effort to protest, which suggested it was happy to leave markets with impression that rates would rise.

The handling, and timing, of the move, was criticised by some money market practitioners. Some felt the Bank had misled the market by, in its daily operations last Thursday, offering a repurchase agreement which offered assistance at the established (lower) rate. Many took this as a clear signal that rates were on hold.

Others, however, supported the Bank on this count. Mr Nick Parsons, treasury economist at CIBC, commented: "There have been several occasions in the past when we've had a rate move with a repo outstanding."

Mr Neil MacKinnon, chief economist at Citibank in London, also warned: "My experience in the money markets has been: never say never."

Both, however, were critical of the handling of the move. "The Bank has used its discretion over the precise timing of a rate change in a way which unsettles investors, destabilises traders and maximises uncertainty about future changes," said Mr Parsons.

Mr MacKinnon said it was easier to read the intentions of the Fed and Bundesbank. "With the Bank of England we still live in Smiley's world of secrecy." He said the fact that some highly respected economists had been wrong-footed "shows how the Bank have made confusing and misleading signals to the market."

Some money market operators were also critical that the Bank could have set a 5.19688 per cent interest rate, on a £4.5bn floating rate gilt issue, last Friday. Official sources pointed out, however, that the quarterly date for changing the interest rate was inflexible, and set months in advance.

■ The D-Mark finished weaker against most currencies. Analysts said markets were beginning to worry whether the chancellor Mr Kohl's governing coalition would win an outright majority in the national elections in October.

The D-Mark closed at SKr4.853, from SKr4.902. Against the French franc it finished at FFr3.425 from FFr3.427.

■ The Bank provided UK money markets with £180m late assistance. Earlier it had provided £624m liquidity at the new rate of 5¾ per cent, up from 5¼ per cent. Overnight money traded between 4¾ and 7 per cent.

Cash market rates moved up in line with the higher base rate. Three month LIBOR finished at 5¾ per cent from 5⅞ on Friday. One year LIBOR finished at 7¼ per cent from 6⅞.

Analysts said the sharp move in short sterling was an over-reaction, reflecting the extent to which the market had assumed rates would not be moving. One source argued that if the Bank had moved on Thursday, losses would have been much reduced.

■ OTHER CURRENCIES

Sep 12	£	$
Hungary	165.205 - 165.448	108.550 - 108.850
Iran	2695.00 - 2698.00	1748.00 - 1750.00
Kuwait	0.4648 - 0.4657	0.2975 - 0.2980
Poland	35883.2 - 35717.1	23014.0 - 23024.0
Russia	3523.66 - 3526.35	2255.00 - 2258.00
U.A.E.	5.7563 - 5.7580	3.6715 - 3.6735

POUND SPOT FORWARD AGAINST THE POUND

Sep 12		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	16.9778	+0.1467	713 - 845	16.9845	16.7644	16.9736	0.3	16.9617	0.4	-	-	115.3
Belgium	(BFr)	49.6378	+0.3793	077 - 673	49.6873	49.0490	49.6575	-0.5	49.5925	0.4	49.3625	0.6	117.0
Denmark	(DKr)	9.5202	+0.0692	144 - 260	9.5260	9.4242	9.5248	-0.6	9.5418	-0.9	9.6808	-0.6	116.6
Finland	(FM)	7.7572	+0.0002	481 - 662	7.7830	7.6820	-	-	-	-	-	-	84.9
France	(FFr)	8.2588	+0.0651	552 - 625	8.2625	8.1628	8.2590	-0.1	8.2613	-0.1	8.216	0.5	110.4
Germany	(DM)	2.4117	+0.0203	109 - 125	2.4140	2.3820	2.4105	0.6	2.4077	0.7	2.3764	1.4	126.4
Greece	(Dr)	367.356	+3.127	141 - 571	367.571	363.113	-	-	-	-	-	-	-
Ireland	(I£)	1.0155	+0.0027	148 - 161	1.0182	1.0096	1.0154	0.1	1.0156	-0.4	1.0212	-0.6	104.2
Italy	(L)	2453.21	+15.27	125 - 516	2455.16	2425.00	2458.41	-2.5	2471.36	-3.0	2537.41	-3.4	75.0
Luxembourg	(LFr)	49.6378	+0.3793	077 - 673	49.6873	49.0490	49.6575	-0.5	49.5925	0.4	49.3625	0.6	117.0
Netherlands	(Fl)	2.7048	+0.0232	028 - 068	2.7068	2.6714	2.7036	0.4	2.7002	0.7	2.6679	1.4	121.0
Norway	(NKr)	10.5951	+0.0763	918 - 983	10.5983	10.4693	10.5949	0.0	10.5971	-0.1	10.5995	0.0	96.1
Portugal	(Es)	248.668	+1.833	750 - 985	245.985	242.930	247.595	-3.4	250.778	-3.0	-	-	-
Spain	(Pta)	200.462	+1.393	381 - 623	200.523	198.307	200.797	-2.1	201.527	-2.1	204.227	-1.9	88.0
Sweden	(SKr)	11.7067	-0.017	990 - 144	11.7880	11.6341	11.7257	-1.9	11.7782	-2.5	11.9867	-2.4	75.1
Switzerland	(SFr)	2.0071	+0.0123	060 - 082	2.0082	1.9842	2.0043	1.7	1.9988	1.7	1.9662	2.1	123.0
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	79.1
Ecu	-	1.2652	+0.0092	645 - 659	1.2652	1.2514	1.2654	-0.2	1.2656	-0.1	1.2639	0.1	-
SDR†	-	0.944888	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5619	+0.0118	616 - 622	1.5634	1.5501	-	-	-	-	-	-	-
Brazil	(R$)	1.3298	-0.0196	290 - 315	1.3482	1.3255	-	-	-	-	-	-	-
Canada	(C$)	2.1338	+0.0097	325 - 340	2.1340	2.1180	2.1337	-0.2	2.1334	0.0	2.1301	0.2	86.9
Mexico	(New Peso)	5.3190	+0.0405	142 - 237	5.3239	5.2629	-	-	-	-	-	-	-
USA	($)	1.5626	+0.0117	623 - 628	1.5640	1.5508	1.5617	0.7	1.5597	0.7	1.5468	1.0	62.4
Pacific/Middle East/Africa													
Australia	(A$)	2.0995	+0.0173	985 - 005	2.1016	2.0870	2.0995	0.0	2.1008	-0.2	2.1189	-0.9	-
Hong Kong	(HK$)	12.0737	+0.0895	710 - 764	12.0842	11.9830	12.0698	0.4	12.0687	0.2	12.0787	0.0	-
India	(Rs)	49.0172	+0.3616	054 - 289	49.0630	48.6580	-	-	-	-	-	-	-
Japan	(Y)	154.680	+0.718	605 - 753	155.080	153.290	154.279	3.0	153.374	3.3	148.399	4.1	189.1
Malaysia	(M$)	3.9964	+0.0236	970 - 998	3.9949	3.9576	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.5915	+0.0248	900 - 930	2.5930	2.5741	2.5954	-1.8	2.6032	-1.8	2.6254	-1.3	-
Philippines	(Peso)	41.0170	+0.2282	541 - 798	41.1798	40.5370	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.8600	+0.0437	586 - 613	5.8650	5.8155	-	-	-	-	-	-	-
Singapore	(S$)	2.3300	+0.0079	292 - 308	2.3345	2.3178	-	-	-	-	-	-	-
S Africa (Com.)	(R)	5.5475	+0.0296	454 - 495	5.5495	5.5038	-	-	-	-	-	-	-
S Africa (Fin.)	(R)	7.0034	+0.0088	888 - 201	7.0201	6.9456	-	-	-	-	-	-	-
South Korea	(Won)	1250.43	+9.16	984 - 102	1251.20	1241.57	-	-	-	-	-	-	-
Taiwan	(T$)	40.9533	+0.3232	448 - 818	40.9893	40.6448	-	-	-	-	-	-	-
Thailand	(Bt)	39.0169	+0.2887	060 - 387	39.0387	38.7160	-	-	-	-	-	-	-

†SDR rates for Sep 9. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1985 = 100. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Sep 12		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P Morgan index
Europe													
Austria	(Sch)	10.8655	+0.013	630 - 680	10.8680	10.8025	10.8655	0.0	10.8653	0.0	10.7905	0.7	104.8
Belgium	(BFr)	31.7670	+0.008	530 - 810	31.7810	31.6100	31.772	-0.2	31.797	-0.4	31.907	-0.4	108.2
Denmark	(DKr)	6.0926	-0.005	900 - 955	6.0955	6.0702	6.0985	-1.2	6.1178	-1.8	6.1941	-1.7	105.0
Finland	(FM)	4.9644	-0.0372	594 - 694	5.0207	4.9415	4.9644	0.0	4.9704	-0.5	5.0260	-1.3	78.9
France	(FFr)	5.2855	+0.0023	840 - 870	5.2870	5.2565	5.2892	-0.8	5.2958	-0.8	5.36	0.6	105.8
Germany	(DM)	1.5435	+0.0016	432 - 437	1.5437	1.5342	1.5436	-0.1	1.5438	-0.1	1.5377	0.4	107.4
Greece	(Dr)	235.100	+0.25	000 - 200	235.200	233.850	235.4	-1.5	236.05	-1.6	239.925	-1.8	69.3
Ireland	(I£)	1.5368	+0.0078	380 - 395	1.5429	1.5202	1.5362	0.5	1.5353	0.4	1.5158	1.4	-
Italy	(L)	1570.00	-1.98	900 - 100	1571.00	1562.25	1574.25	-3.2	1584.5	-3.7	1640.5	-4.5	75.3
Luxembourg	(LFr)	31.7670	+0.008	530 - 810	31.7810	31.6100	31.772	-0.2	31.797	-0.4	31.907	-0.4	108.2
Netherlands	(Fl)	1.7310	+0.002	300 - 320	1.7320	1.7203	1.7311	-0.1	1.7313	-0.1	1.7248	0.4	106.1
Norway	(NKr)	6.7806	-0.0024	766 - 816	6.7816	6.7507	6.7856	-0.8	6.8056	-1.5	6.8761	-1.4	96.3
Portugal	(Es)	157.350	-	300 - 400	157.400	156.850	158.1	-5.7	161.775	-11.2	168.35	-6.7	95.8
Spain	(Pta)	128.285	-0.065	260 - 310	128.310	127.600	128.56	-2.6	129.21	-2.9	132.035	-2.9	80.9
Sweden	(SKr)	7.4921	-0.0572	883 - 958	7.5615	7.4508	7.5098	-2.8	7.5501	-3.1	7.7546	-3.5	78.7
Switzerland	(SFr)	1.2845	-0.0017	840 - 850	1.2850	1.2785	1.2835	1.0	1.2815	0.9	1.2708	1.1	108.3
UK	(£)	1.5626	+0.0117	623 - 628	1.5640	1.5508	1.5617	0.7	1.5597	0.7	1.5468	1.0	86.7
Ecu	-	1.2350	+0.0002	345 - 355	1.2410	1.2345	1.2341	0.9	1.2324	0.9	1.2236	0.9	-
SDR†	-	1.46685	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9996	-0.0001	995 - 996	0.9997	0.9995	-	-	-	-	-	-	-
Brazil	(R$)	0.8510	-0.019	500 - 520	0.8580	0.8500	-	-	-	-	-	-	-
Canada	(C$)	1.3655	-0.0004	650 - 660	1.3675	1.3643	1.3659	-0.5	1.3678	-0.7	1.3813	-1.2	83.1
Mexico	(New Peso)	3.4040	+0.0005	015 - 065	3.4090	3.4015	3.405	-0.4	3.4068	-0.3	3.4142	-0.3	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	96.2
Pacific/Middle East/Africa													
Australia	(A$)	1.3437	+0.0011	432 - 441	1.3470	1.3432	1.344	-0.2	1.3447	-0.3	1.352	-0.6	87.5
Hong Kong	(HK$)	7.7269	+0.0004	264 - 274	7.7274	7.7264	7.7267	0.0	7.7274	0.0	7.7424	-0.2	-
India	(Rs)	31.3700	-0.0025	675 - 725	31.3775	31.3675	31.455	-3.3	31.6	-2.9	-	-	-
Japan	(Y)	98.9850	-0.28	600 - 100	99.1500	98.7800	98.795	2.3	98.335	2.6	95.94	3.1	148.5
Malaysia	(M$)	2.5525	-0.004	520 - 530	2.5555	2.5505	2.5433	4.3	2.532	3.2	2.6055	-2.1	-
New Zealand	(NZ$)	1.6585	+0.0035	578 - 592	1.6603	1.6578	1.6594	-0.7	1.6613	-0.7	1.6666	-0.5	-
Philippines	(Peso)	26.2500	-0.05	500 - 500	26.4500	26.1500	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7503	-	500 - 505	3.7505	3.7500	3.7516	-0.4	3.7557	-0.6	3.7743	-0.6	-
Singapore	(S$)	1.4912	-0.0061	909 - 914	1.4970	1.4905	1.4898	1.1	1.4879	0.9	1.4812	0.7	-
S Africa (Com.)	(R)	3.5503	-0.0075	495 - 510	3.5595	3.5485	3.5658	-5.2	3.5941	-4.9	3.6708	-3.4	-
S Africa (Fin.)	(R)	4.4820	-0.028	720 - 920	4.5100	4.4720	4.5157	-9.0	4.5745	-8.3	-	-	-
South Korea	(Won)	800.250	-0.1	000 - 500	800.700	800.000	803.25	-4.5	806.75	-3.2	825.25	-3.1	-
Taiwan	(T$)	26.2093	+0.0115	080 - 105	26.2160	26.1990	26.2283	-0.9	26.2693	-0.9	-	-	-
Thailand	(Bt)	24.9700	+0.005	600 - 800	24.9800	24.9600	25.0425	-3.5	25.17	-3.2	25.65	-2.7	-

†SDR rate for Sep 9. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Sep 9 Base average 1990=100

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Sep 12		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	19.18	16.64	4.858	2.045	4943	5.448	21.34	495.3	403.8	23.57	4.044	2.015	4.298	3.149	311.5	2.549
Denmark	(DKr)	52.13	10	8.674	2.533	1.066	2577	2.840	11.12	258.2	210.5	12.29	2.108	1.050	2.241	1.642	162.4	1.329
France	(FFr)	60.10	11.53	10	2.920	1.229	2970	3.274	12.82	297.7	242.7	14.17	2.430	1.211	2.583	1.893	187.2	1.532
Germany	(DM)	20.58	3.949	3.425	1	0.421	1017	1.122	4.392	101.9	83.12	4.853	0.832	0.415	0.885	0.648	64.12	0.525
Ireland	(I£)	48.90	9.379	8.136	2.375	1	2417	2.664	10.43	242.2	197.4	11.53	1.977	0.985	2.101	1.540	152.3	1.246
Italy	(L)	2.023	0.388	0.337	0.098	0.041	100.	0.110	0.432	10.02	8.170	0.477	0.082	0.041	0.087	0.064	6.302	0.052
Netherlands	(Fl)	18.35	3.521	3.054	0.892	0.375	907.2	1	3.916	90.90	74.11	4.327	0.742	0.370	0.789	0.578	57.17	0.468
Norway	(NKr)	46.86	8.990	7.798	2.277	0.958	2316	2.553	10	232.1	189.2	11.05	1.895	0.944	2.014	1.476	146.0	1.195
Portugal	(Es)	20.19	3.873	3.360	0.981	0.413	998.0	1.100	4.308	100.	81.53	4.760	0.817	0.407	0.868	0.636	62.90	0.515
Spain	(Pta)	24.77	4.750	4.121	1.203	0.506	1224	1.349	5.284	122.7	100.	5.838	1.001	0.499	1.064	0.780	77.15	0.631
Sweden	(SKr)	42.42	8.137	7.058	2.061	0.868	2097	2.311	9.051	210.1	171.3	10	1.715	0.855	1.823	1.336	132.1	1.081
Switzerland	(SFr)	24.73	4.743	4.115	1.201	0.506	1222	1.347	5.277	122.5	99.85	5.830	1	0.498	1.063	0.779	77.03	0.630
UK	(£)	49.63	9.520	8.258	2.411	1.015	2453	2.704	10.59	245.8	200.4	11.70	2.007	1	2.133	1.563	154.6	1.265
Canada	(C$)	23.27	4.463	3.872	1.130	0.476	1150	1.268	4.965	115.2	93.95	5.486	0.941	0.469	1	0.733	72.48	0.593
US	($)	31.75	6.091	5.283	1.543	0.649	1569	1.730	6.775	157.3	128.2	7.486	1.284	0.640	1.365	1	98.91	0.809
Japan	(Y)	32.10	6.158	5.342	1.560	0.657	1587	1.749	6.850	159.0	129.6	7.568	1.298	0.647	1.380	1.011	100.	0.818
Ecu		39.23	7.526	6.526	1.906	0.802	1939	2.138	8.372	194.3	158.4	9.249	1.587	0.791	1.686	1.236	122.2	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

EMS EUROPEAN CURRENCY UNIT RATES

Sep 12	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Netherlands	2.19672	2.14429	+0.00024	-2.39	5.58	-
Belgium	40.2123	39.3627	-0.0194	-2.11	5.28	15
Germany	1.94964	1.91248	-0.00015	-1.91	5.06	-
Ireland	0.808628	0.806514	+0.000834	-0.26	3.33	2
France	6.53883	6.54897	-0.0036	0.16	2.90	-1
Portugal	192.854	194.936	-0.012	1.08	1.98	-7
Denmark	7.43679	7.55468	-0.00766	1.59	1.45	-11
Spain	154.250	158.966	+0.054	3.06	0.00	-21
NON ERM MEMBERS						
Greece	264.513	291.323	+0.143	10.14	-6.43	-
Italy	1793.19	1946.52	+1.53	8.55	-5.06	-
UK	0.786749	0.795568	+0.000807	1.12	1.92	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.
(17/9/92) Sterling and Italian Lira suspended from ERM. Adjustment calculated by the Financial Times.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	0.6505	0.6493	-0.0008	0.6515	0.6485	59,052	88,332
Dec	0.6502	0.6492	-0.0009	0.6520	0.6492	19,488	42,463
Mar	0.6505	0.6500	-0.0009	0.6505	0.6500	176	3,167

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	1.0104	1.0111	+0.0027	1.0128	1.0097	24,205	52,091
Dec	1.0165	1.0177	+0.0026	1.0190	1.0165	10,114	21,332
Mar	-	1.0255	-	1.0255	-	22	1,869

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Sep	Oct	Nov	PUTS Sep	Oct	Nov
1.450	-	-	-	-	-	-
1.475	8.49	8.39	8.41	-	-	0.06
1.500	5.98	6.03	6.17	-	0.04	0.27
1.525	3.47	3.80	4.16	-	0.30	0.73
1.550	1.22	2.02	2.55	0.13	0.96	1.56
1.575	0.11	0.84	1.38	1.46	2.27	2.81

Previous day's vol., Calls 58,206 Puts 56,366 . Prev. day's open int., Calls 661,506 Puts 496,829

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	0.7809	0.7798	-0.0011	0.7823	0.7797	27,701	33,000
Dec	0.7828	0.7814	-0.0015	0.7837	0.7814	11,656	18,273
Mar	0.7850	0.7838	-0.0011	0.7850	0.7838	265	242

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	1.5520	1.5610	+0.0088	1.5620	1.5500	21,093	30,322
Dec	1.5510	1.5578	+0.0070	1.5610	1.5502	8,973	12,722
Mar	-	1.5570	-	1.5570	-	7	186

WORLD INTEREST RATES

MONEY RATES

September 12	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	4¾	5⅛	5¼	5⅝	6¼	7.40	4.50	-
week ago	4¾	5⅛	5¼	5⅝	6⅛	7.40	4.50	-
France	5¼	5⅜	5⅝	5⅞	6⅜	5.00	-	6.75
week ago	5¼	5⅜	5⅝	5⅞	6⅜	5.00	-	6.75
Germany	4.97	4.95	4.95	5.10	5.45	6.00	4.50	4.85
week ago	4.90	4.95	4.95	5.02	5.33	6.00	4.50	4.85
Ireland	4¼	5½	6⅛	6¼	7⅛	-	-	6.25
week ago	4⅞	5½	6⅛	6⅜	7⅛	-	-	6.25
Italy	8½	8⅝	8⅞	9⅝	10⅛	-	7.50	8.45
week ago	8½	8⅝	8⅞	9½	10½	-	7.50	8.45
Netherlands	4.84	4.97	5.03	5.16	5.52	-	5.25	-
week ago	4.84	4.97	5.01	5.14	5.46	-	5.25	-
Switzerland	3⅞	4	4⅛	4⅜	4⅜	6.625	3.50	-
week ago	3⅝	4	4⅛	4½	4⅞	6.625	3.50	-
US	4⅞	4⅞	5	5¼	5⅞	-	4.00	-
week ago	4⅝	4⅞	4⅞	5⅛	5⅝	-	4.00	-
Japan	2⅛	2½	2⅝	2¼	2⅞	-	1.75	-
week ago	2⅛	2½	2⅝	2¼	2⅞	-	1.75	-
■ $ LIBOR FT London								
Interbank Fixing	-	4⅞	5¼	5⅝	5⅞	-	-	-
week ago	-	4⅝	5	5¼	5⅞	-	-	-
US Dollar CDs	-	4.65	4.83	5.14	5.70	-	-	-
week ago	-	4.65	4.80	5.07	5.58	-	-	-
SDR Linked Ds	-	3⅝	3¾	3⅝	4	-	-	-
week ago	-	3½	3⅞	3⅝	4	-	-	-

ECU Linked Ds mid rates: 1 mth: 5⅛; 3 mths: 5⅝; 6 mths: 6⅛; 1 year: 6⅞. $ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US $ CDs and SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Sep 12	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Danish Krone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
D-Mark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dutch Guilder	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
French Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portuguese Esc.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spanish Peseta	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Swiss Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Can. Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
US Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italian Lira	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Yen	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asian $Sing	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris interbank offered rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	94.37	94.36	-0.01	94.37	94.34	5,881	40,474
Dec	93.87	93.87	-0.01	93.89	93.83	16,243	46,379
Mar	93.46	93.43	-0.02	93.46	93.40	5,241	29,546
Jun	93.14	93.09	-0.02	93.14	93.07	3,215	26,327

■ THREE MONTH EURODOLLAR (LIFFE) $1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	94.94	94.92	-0.02	94.94	94.93	23	2859
Dec	94.24	94.24	-0.02	94.24	94.24	123	2003
Mar	93.86	93.88	-0.02	93.86	93.86	100	1438
Jun	93.51	93.52	-0.01	93.61	93.51	200	334

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	94.99	94.98	-	94.99	94.96	9563	130559
Dec	94.81	94.79	-0.01	94.81	94.77	22440	175368
Mar	94.43	94.42	-	94.43	94.38	19692	162297
Jun	94.05	94.04	-	94.07	94.00	13991	105718

■ THREE MONTH EUROLIRA INT.RATE FUTURES (LIFFE) L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	91.05	91.09	+0.02	91.11	91.00	2008	19088
Dec	89.73	89.70	-	89.77	89.61	4929	31914
Mar	89.05	89.01	+0.01	89.07	88.94	2238	19306
Jun	88.63	88.60	-	88.65	88.51	982	14335

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	95.90	95.89	+0.07	95.90	95.84	1715	15094
Dec	95.43	95.52	+0.12	95.52	95.39	7642	19416
Mar	95.10	95.16	+0.08	95.16	95.08	1257	11679
Jun	94.76	94.82	+0.04	94.81	94.76	272	6300

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	94.06	94.04	-0.02	94.10	94.02	753	8294
Dec	93.47	93.44	-0.02	93.50	93.41	792	6754
Mar	92.98	92.94	-0.04	93.00	92.93	470	4470
Jun	92.52	92.53	-0.05	92.56	92.51	182	1751

* LIFFE futures traded on APT

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	94.93	94.92	-0.01	94.93	94.92	90,986	348,848
Dec	94.26	94.24	-0.02	94.25	94.23	219,506	507,049
Mar	93.89	93.87	-0.02	93.89	93.86	152,887	392,974

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	95.36	95.37	-0.01	95.38	95.37	1,586	7,646
Dec	94.81	94.79	-0.01	94.81	94.82	1,409	11,311
Mar	94.38	94.39	-0.03	94.40	94.38	1,264	5,124

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	CALLS Sep	Oct	Nov	Dec	PUTS Sep	Oct	Nov	Dec
9475	0.23	0.10	0.13	0.17	0	0.06	0.09	0.13
9500	0.02	0.02	0.04	0.06	0.04	0.23	0.27	0.27
9525	0	0	0.02	0.02	0.27	0.46	0.48	[illegible]

Est. vol. total, Calls 943 Puts 1625. Previous day's open int., Calls 260401 Puts 203430

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Sep	Dec	Mar	PUTS Sep	Dec	Mar
9575	0.15	0.04	0.06	0.01	0.27	0.67
9600	0.01	0.02	0.02	0.10	0.49	0.69
9625	0	0	0	0.36	0.74	1.11

Est. vol. total, Calls 100 Puts 0. Previous day's open int., Calls 3305 Puts 1790

UK INTEREST RATES

LONDON MONEY RATES

Sep 12	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	7 - 4¾	6 - 5	[illegible]	[illegible]	[illegible]	[illegible]
Sterling CDs	-	-	[illegible]	[illegible]	[illegible]	[illegible]
Treasury Bills	-	-	[illegible]	[illegible]	-	-
Bank Bills	-	-	[illegible]	[illegible]	[illegible]	-
Local authority deps.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Discount Market deps.	[illegible]	[illegible]	-	-	-	-

UK clearing bank base lending rate 5¾ per cent from September 12, 1994

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	1¼	5	5¼	3¾	3½

Certs of Tax dep. under £100,000 is 1¼pc. Deposits withdrawn for cash ½pc. Ave. tender rate of discount [illegible]. ECGD fixed rate Stg. Export Finance. Make up day Aug 31, 1994. Agreed rate for period Sep 25, 1994 to Oct 25, 1994, Schemes II & III [illegible]. Reference rate for period July 30, 1994 to Aug 31, 1994, Schemes IV & V [illegible]. Finance House Base Rate [illegible] from Sep 1, 1994

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	94.50	94.07	-0.40	94.61	94.06	38074	84015
Dec	93.70	93.30	-0.37	93.73	93.26	88324	151046
Mar	92.81	92.50	-0.28	92.83	92.45	26843	77503
Jun	92.21	91.95	-0.23	92.21	91.89	7527	56081

Traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Sep	Dec	Mar	PUTS Sep	Dec	Mar
9400	0.10	0.03	0.02	0.03	0.73	1.52
9425	0.01	0.01	0.01	0.19	0.96	1.76
9450	0	0	0	0.43	1.20	2.00

Est. vol. total, Calls 14952 Puts 28034. Previous day's open int., Calls 361171 Puts 313752

BASE LENDING RATES

	%		%		%
Adam & Company	5.25	Duncan Lawrie	5.75	*Roxburghe Guarantee Corporation Limited is no longer authorised as a banking institution.	8
Allied Trust Bank	5.25	Exeter Bank Limited	6.25	Royal Bk of Scotland	5.75
AIB Bank	5.25	Financial & Gen Bank	6	●Smith & Williman Secs.	5.75
●Henry Ansbacher	5.75	●Robert Fleming & Co	5.75	TSB	5.25
Bank of Baroda	5.75	Girobank	5.25	●United Bk of Kuwait	5.75
Banco Bilbao Vizcaya	5.75	●Guinness Mahon	5.75	Unity Trust Bank Plc	5.75
Bank of Cyprus	5.75	Habib Bank AG Zurich	5.25	Western Trust	5.25
Bank of Ireland	5.75	●Hambros Bank	5.75	Whiteaway Laidlaw	5.75
Bank of India	5.75	Heritable & Gen Inv Bk.	5.25	Yorkshire Bank	5.75
Bank of Scotland	5.75	●Hill Samuel	5.25		
Barclays Bank	5.75	C. Hoare & Co	5.25		
Brit Bk of Mid East	6.25	Hongkong & Shanghai.	5.25		
●Brown Shipley & Co Ltd	5.25	Julian Hodge Bank	5.75		
CL Bank Nederland	5.75	●Leopold Joseph & Sons	5.75		
Citibank NA	5.75	Lloyds Bank	5.75		
Clydesdale Bank	5.75	Meghraj Bank Ltd	5.75		
The Co-operative Bank	5.75	Midland Bank	5.75		
Coutts & Co	5.75	*Mount Banking	6		
Credit Lyonnais	5.75	NatWestminster	5.75		
Cyprus Popular Bank	5.75	●Rea Brothers	5.25		

● Members of London Investment Banking Association
* In administration

MONEY MARKET FUNDS

Money Market Trust Funds

Coutts & Co
Dao Heng Bank (London) PLC Premier Acc
CAF Money Management Co Ltd
Dewsbury [illegible]
The COIF Charities Deposit Account
Fidelity Money Market Account
Cent. Bd. of Fin. of Church of England

Money Market Bank Accounts

Allied Trust Bank Ltd
Julian Hodge Bank Ltd
American Express Bank Ltd
Humberclyde Finance Group
Leopold Joseph & Sons Limited
Arbuthnot Latham & Co Ltd
Kleinwort Benson Ltd
Kleinwort Benson Private Bank
Lloyds Bank – Investment Account
Bank of Ireland High Interest Cheque Acc
Midland Bank plc
Bank of Scotland
Nationwide Bldg Soc
Barclays Select
Barclays Prime Account H.I.C.A.
Portman Bldg Soc
Rea Brothers Limited, Bankers
Brown Shipley & Co Ltd
Royal Bank of Scotland plc
Caledonian Bank Plc
Save & Prosper/Robert Fleming
Cater Allen Ltd
Charterhouse Bank Limited
Tyndall Bank plc
United Dominions Trust Ltd
Clydesdale Bank
United Trust Bank Ltd
The Co-operative Bank
J. Henry Schroder Wagg & Co Ltd
Western Trust High Interest Cheque Acc

[illegible]

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NOTES– Gross: Contractual rate of interest payable, not taking account of the deduction of basic rate income tax. Net: Rate of interest payable after allowing for deduction of basic rate income tax. Gross CAR: Gross rate annualised to take account of compounding of interest paid other than once a year. 'Compounded Annual Rate'. Int Cr: Frequency at which interest is credited to the account.

WORLD STOCK MARKETS

EUROPE

PACIFIC

AFRICA

NORTH AMERICA

Prices supplied by Telekurs

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. Highs/Lows are for 1994, except Toronto & Montreal (daily). # Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. (A) Zurich closed 12/9.

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TOKYO - MOST ACTIVE STOCKS: Monday, September 12, 1994

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Nippon Steel	4.5m	375	+5	NKK	1.8m	281	+1
Kawasaki Steel	3.3m	590	+2	Mitsubishi Hvy	1.8m	769	+3
Nissan Motor	2.9m	775	+19	Sumitomo Mtl	1.7m	942	+7
Toshiba	2.3m	757	+5	Hitachi	1.7m	973	
Tokyo Broadcast	2.1m	1570	-10	NSK Ltd	1.7m	724	-31

INDICES

US INDICES

RATIOS

	Sep 9	Sep 2	Aug 26	Year ago
Dow Jones Ind. Div. Yield	2.71	2.63	2.64	2.81
	Sep 7	Aug 31	Aug 24	Year ago
S & P Ind. Div. yield	2.37	2.33	2.37	2.46
S & P Ind. P/E ratio	20.96	21.11	20.73	27.86

STANDARD AND POORS 500 INDEX FUTURES $500 times index

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Sep	-	467.95	-	-	-	42,934	121,578
Dec	469.55	470.05	-0.10	470.25	469.40	81,761	190,015
Mar	-	473.30	-	-	-	78	4,699

Open interest figures are for previous day.

NEW YORK ACTIVE STOCKS

TRADING ACTIVITY

CAC-40 STOCK INDEX FUTURES (MATIF)

4 pm close September 12

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1994 High	1994 Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
17⅞	12¾	AAR	0.48	3.6	22	310	13⅝	13¼	13⅜	-⅛
16⅞	12⅝	A L Labs A	0.18	1.1	36	123	15⅞	15¾	16⅞	
75¼	57⅝	AMP	1.68	2.4	24	2043	71¾	70¼	70¼	-1⅝
72¾	52⅛	AMR			88	2506	57½	56⅜	56⅜	-1¼
5	3⅜	ARX			12	89	3⅞	3⅝	3¾	-⅛
56⅛	38⅝	ASA	2.00	3.9	34	398	51⅞	51⅛	51⅞	+¼
31⅝	25⅝	AbbotL	0.76	2.5	17	5061	30¼	29¾	30	+⅛
14½	11⅜	Abitibi Pr	0.50	3.6	10	513	14⅛	13⅞	14	-¼
23⅝	17⅞	ABM Ind	0.52	2.3		44	22⅝	22⅜	22½	
15⅛	11⅛	Acpbrcain			26	192	14⅞	14½	14½	-¼
31	22⅞	ACE Ltd	0.44	1.8	30	153	24⅛	24	24	-¼
12½	9⅝	ACM Gvt In x	1.09	11.1		164	10	9⅞	9⅞	
10⅛	7⅛	ACM GvOpp x	0.80	11.2		77	7¼	d7⅛	7⅛	-⅛
10⅝	7½	ACM Gvt Sp x	0.98	12.6		226	7⅝	d7½	7⅝	
12	8¾	ACM Gvt Se x	1.09	12.7		601	8⅞	d8⅝	8⅝	-¼
11¼	8⅜	ACM Man x	1.08	12.2		60	9	8⅞	8⅞	-⅛
9¼	8	ACM Managd x	0.72	8.9		228	8⅛	d8	8⅛	+⅛
15½	8¼	AcmeClv	0.44	3.7	14	1029	12	11¾	11⅞	-⅛
9⅞	6½	Acme Elect			7	31	8⅞	8¾	8⅞	
28¾	23	Acordia	0.60	2.2	13	3	27½	27½	27½	-⅛
13⅞	5¼	Actava	0.36	3.2	3	690	11⅜	10⅞	11⅛	+¼
15⅝	11¼	Acuson			112	254	14⅝	14⅜	14⅝	+⅛
18⅜	16½	Adams Expr	0.48	2.7	0	174	17⅝	17½	17½	
64	45½	Adv Micro	3.00	5.3		488	57½	57	57	-¼
31¾	18¾	AdvMic	3.00	10.9	11	4440	28	27⅜	27½	-⅜
6⅞	5	Advest Grp	0.16	3.0	8	2	5¼	5¼	5¼	-⅛
30	15	Advo Inc	0.10	0.6	118	69	17⅞	17¾	17¾	-¼
59½	49⅜	Aegon ADR	1.47	2.6	12	20	57	56⅜	56⅞	
65¾	48⅛	AetnaL	2.76	5.7	7	7119	48½	d47¾	48⅛	
36⅛	25¼	Aflac	0.46	1.3	15	474	35	34¾	34⅞	-⅛
22¾	16⅜	Ahmnsn	0.88	4.1	15	2692	21⅞	21⅜	21⅜	-⅛
4	1⅞	Aileen Inc			2	298	2⅞	2¼	2⅞	+⅝
50⅜	38⅞	AirPrC	0.98	2.1	26	1030	47⅞	47⅛	47⅛	-⅝
39⅞	26¼	Airbne Frt	0.30	1.1	17	1492	29	28	28¼	-⅜
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

- B -

[illegible]

- C -

[illegible]

- D -

[illegible]

- E -

[illegible]

- F -

[illegible]

- G -

[illegible]

- H -

[illegible]

- I -

[illegible]

- J -

[illegible]

- K -

[illegible]

- L -

[illegible]

- M -

[illegible]

- N -

[illegible]

- O -

[illegible]

- P - Q -

[illegible]

- R -

[illegible]

- S -

[illegible]

Continued on next page

4 pm close September 12

NYSE COMPOSITE PRICES

1994 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng. Prev. Close
Continued from previous page										
49⅞	32⅝	Sallie Mae x	1.40	3.6	7	2369	38½	38¼	38⅞	+⅛
12⅞	11⅞	Salomon Br	0.32	2.5		429	12¾	12½	12½	
52¾	41½	Salomon	0.64	1.6	5	4197	42¼	d41	41	-1⅜
25	17½	SDgGE x	1.62	8.3	9	458	18⅝	18⅞	18⅞	-⅛
10	7½	SantaFeEn	0.16	1.7	9	300	9⅜	9¼	9⅜	+⅛
17⅝	13½	SFeGd				6121	17⅛	16¾	16⅞	-⅛
40	31½	SantaFePac	2.80	8.0	16	38	35½	35	35	-⅜
26¼	18½	SanFeP	0.10	0.4	12	12883	22⅝	22⅜	22½	-⅛
26	19⅜	SaraLee	0.64	2.9	14	5166	22⅜	22	22	
50⅛	42⅞	Scana Corp x	2.82	6.5	11	88	43⅞	43⅝	43⅝	-¼
20½	12½	Scecrp	1.00	7.7	9	2936	13⅛	13	13	-⅛
41¼	31¾	ScheraPP			30	617	40½	40	40	-½
71⅞	54½	SchrPl	2.04	2.9	18	2232	70⅝	69¾	69¾	-¾
63	50¾	Schlmb x	1.20	2.1	23	1639	57⅛	56⅝	56⅝	-⅛
33⅞	23¼	Schwab(C)	0.28	1.0	13	1150	28⅛	27¾	27⅞	-⅛
10¾	6⅛	Schweitzer			25	25	8⅞	8⅝	8⅞	+⅛
45	24⅞	SciAtl x	0.12	0.3	68	487	44⅛	43¾	44⅛	+½
16⅞	13	Scotsman	0.10	0.6	14	222	16	15¾	15¾	-¼
66⅞	57⅛	ScotP	0.80	1.3	17	5261	63¾	63⅛	63¼	-⅜
28⅝	18⅝	ScuddrNAsF	0.21	0.9		90	25¼	24½	24½	-¾
12⅝	9½	ScuddrNEuF	0.16	1.5		243	10⅝	10⅛	10⅜	+⅛
18¼	13½	SeaCoB	0.70	4.1	8	12	17⅜	17¼	17¼	
16½	14⅞	SeaC1.4625	1.46	9.7		28	15⅜	15⅛	15⅛	-⅛
32⅝	26¼	Seagrm x	0.60	1.9	38	1700	31⅛	30⅞	31⅛	
28¾	22¼	Seagull En			33	533	25	25¼	25⅛	-⅛

NASDAQ NATIONAL MARKET

4 pm close September 12

AMEX COMPOSITE PRICES

4 pm close September 12

AMERICA

Dow turns its attention to takeover news

Wall Street

Most US stocks posted modest losses yesterday morning in a session highlighted by takeover news in the food, insurance and health care sectors, *writes Frank McGurty in New York.*

By 1 pm, the Dow Jones Industrial Average was 3.03 lower at 3,871.78, while the more broadly based Standard & Poor's 500 was down 1.01 at 467.17. In the secondary markets, the American SE composite eased 0.11 to 454.430 and the Nasdaq composite declined 2.45 to 761.28.

For the most part, it was a day of waiting on Wall Street. Many investors were quietly adjusting their positions ahead of the release this morning of the August consumer price index. As a result, volume was light, with only 132m shares traded on the Big Board by early afternoon.

Before the August PPI was revealed, analysts were forecasting a 0.4 per cent increase in the CPI. But if the data came in higher, as some observers feared yesterday, stocks could tumble again along with bond prices.

In the meantime, equity investors were taking their cue from the Treasury market, where an uneasy calm prevailed. The Dow industrials were hurt by a $1¼ decline in Caterpillar's share price to $54⅝. The company, which relies heavily on export markets, appeared vulnerable after reports suggesting that Congress might not ratify the Gatt world trade agreement this year.

Elsewhere, blue chips languished in sluggish activity – Exxon slipped $⅝ to $59 and DuPont receded $¼ to $58⅛.

However, the overall lacklustre tone was broken by trading related to a fresh batch of takeovers and another wave of speculation on deals in the works.

The day's most significant development was the announcement that Kohlberg Kravis Roberts would offer RJR Nabisco stock for all of Borden's common shares, in a deal valued at $2bn. Borden's stock, which had been hovering near its 52-week low, jumped $2⅛ to $13⅞, while RJR retreated $⅜ to $6⅝.

In health care, GenCare Health Systems climbed $6⅛ to $46 after agreeing to be acquired by United Healthcare for $520m in cash. United was marked down $⅜ to $53⅜.

By contrast, investors were cool to the news that two life insurers were merging. USLICO dropped $1 to $20⅛ and NWNL lost $1⅛ to $30 after announcing plans to unite in a $237m transaction.

Woolworth added $⅜ to $18⅜ on a published report that raised the possibility of a leveraged buyout of the retailer for $2.3bn, or $25 a share.

In pharmaceuticals, takeover speculation continued to swirl around Warner-Lambert, sending its share price down $1 to $82.

SmithKline Beecham was marked up $⅜ to $30⅜ after agreeing to sell the over-the-counter drugs business of its Sterling Winthrop unit to Bayer's Miles Laboratories.

Canada

Toronto lost ground at midday in a session sapped of action ahead of Quebec election results, due late in the day, and today's US consumer price data.

The TSE 300 composite index lost 11.52 at 4,317.62 at noon in volume of 32m shares. Falls outpaced advances by 357 to 207, with 318 issues unchanged.

MARKETS IN PERSPECTIVE

	% change in local currency † 1 Week	4 Weeks	1 Year	Start of 1994	% change sterling † Start of 1994	% change in US $ † Start of 1994
Austria	+0.17	+2.92	+9.40	-4.29	+2.57	+7.52
Belgium	-2.07	-1.33	+6.53	-5.21	+2.93	+7.90
Denmark	-1.70	-3.83	+1.48	-7.24	-1.39	+3.37
Finland	+0.47	+10.66	+43.31	+27.38	+40.70	+47.48
France	-3.01	-2.34	-4.07	-12.32	-6.52	-2.01
Germany	-0.60	+2.97	+13.45	-4.77	+2.31	+7.24
Ireland	-1.00	+5.24	+18.57	+5.73	+9.62	+14.91
Italy	-4.94	+1.59	+6.93	+6.25	+10.39	+15.70
Netherlands	-1.61	+0.81	+12.50	-2.96	+3.99	+9.00
Norway	-2.35	-0.61	+17.52	+2.86	+8.80	+14.04
Spain	-0.32	-3.39	-0.51	-8.88	-3.20	+1.46
Sweden	-2.13	+2.59	+13.24	+3.77	+9.16	+14.43
Switzerland	-1.26	+1.61	+11.92	-9.36	-0.16	+4.66
UK	-2.43	-0.13	+3.84	-7.42	-7.42	-2.96
EUROPE	-2.07	+0.34	+6.03	-6.27	-2.15	+2.57
Australia	-2.29	+0.18	+7.73	-4.37	+0.11	+4.94
Hong Kong	+2.98	+8.05	+37.96	-14.90	-18.81	-14.90
Japan	-3.39	-3.99	-4.90	+9.03	+16.94	+22.58
Malaysia	+3.08	+8.18	+44.97	-6.61	-6.12	-1.59
New Zealand	-0.23	+6.26	+12.03	+2.71	+5.85	+10.96
Singapore	-1.51	-0.16	+17.45	-6.24	-5.93	-1.40
Canada	-0.22	+4.26	+12.99	+2.86	-5.12	-0.54
USA	-0.64	+1.18	+2.16	+0.56	-4.06	-0.56
Mexico	+2.63	+4.87	+42.45	+5.46	-8.19	-3.76
South Africa	+1.09	+2.27	+80.90	+22.05	+10.75	+16.10
WORLD INDEX	-1.68	-0.31	+2.83	+0.56	+1.66	+6.58

† Based on September 9th 1994. Copyright, The Financial Times Limited, Goldman, Sachs & Co and NatWest Securities Limited.

The world's equity markets were broadly lower over a week which brought a sting in its tail. On Friday, Wall Street and leading European markets finished in retreat in reaction to US figures showing an unexpectedly sharp rise in wholesale prices during August, which raised the spectre of rising inflation and interest rates. Italy was the week's biggest loser, weighed down by worries about cabinet splits and vacillation, and doubts about the government's ability to take decisive action on the 1995 budget. Last week's focus was on government plans to cut at least L8,000bn from pensions, prompting trade union threats of a "hot autumn" of conflict if the proposals were not rewritten. Today, Mr Silvio Berlusconi, the prime minister, meets the unions to discuss the issue in what is being seen as the first real test of his stated resolve to take firm, but fair, measures on the economy.

EUROPE

Rise in UK base rates unsettles the Continent

It was a day of contrasts among the Continent's markets yesterday.

FRANKFURT fell back sharply during an active session. The Dax index sank 30.54 to 2,154.61, moving within a range of 2,140.65 and 2,154.66 during the day. In the post-bourse the Ibis-indicated index gained slightly to 2,155.99.

Of the 30 DAX stocks, declining issues outnumbered advances by 26 to 4. Turnover amounted to DM5bn.

Lufthansa was actively traded on news, within market expectations, that it was to offer 7.64m new ordinary shares to existing shareholders at a price of DM160. Shareholders would be able to buy one new share for every four held. The airline's shares improved DM3 to DM200. The government is not taking part in the rights issue, so reducing its stake from 51.4 per cent to about 41 per cent. The 33m shares which the government will take up will be sold to investors at home and abroad, excluding the US, via a syndicate of international banks led by Dresdner Bank.

Bayer dropped DM6.50 to DM368.50 on news that it had paid $1bn for the right to acquire the North American over-the-counter pharmaceuticals activities of Sterling-Winthrop from SmithKline Beecham. The acquisition includes the right to use the Bayer name in North America, lost some 75 years ago.

PARIS overcame a weak opening, following the rise in UK interest rates, on an improvement in the bond market. The CAC-40 index added 17.96 at 1,966.79. Turnover was light at FFr2.5bn.

There was further negative news for Saint-Gobain with reports that an executive of a subsidiary was to be questioned by magistrates. However, the shares made ground on expectations of good first-half results being reported on Thursday, firming FFr4 to FFr640.

MILAN was lower, awaiting today's meeting between Mr Silvio Berlusconi, the prime minister, and the trades unions over pension reform, and depressed by the UK's move on interest rates. The Comit index weakened 13.70, or 2.1 per cent, to 648.83.

Goldman Sachs, which is keeping its rolling 12-month Comit index target unchanged at 800, said it continued to expect the strong earnings momentum and slightly more attractive valuation to support a 17 to 20 per cent total annual return for equities, even though the short term prospects were suffering from a high level of uncertainty over the government's fiscal policy.

Olivetti, L52 or 2.6 per cent lower at L1,954, continued to be pressured by worries that first-half results might disappoint the market, and the investigation into the awards of state contracts.

Cir, the industrial holding company, gave up a further L47, or 2.4 per cent, to L1,936.

Against the trend, Ciga, the luxury hotels group, rose L12 to L1,068. At the weekend, ITT-Sheraton fixed its public buy offer for 367m shares at L1,102 a share. The offer begins next Monday and if successful would leave Sheraton with 70 per cent of Ciga.

ZURICH was closed for a local holiday, but prices overcame early weakness in active Basle trading after Wall Street's firm opening. The SMI index, down 17.6 early in the day, finished 0.9 higher at 2,643.0.

Banks led the uptrend, with CS Holding putting on SFr7 at SFr569 after the group said it was withdrawing its offer for Austria's Creditanstalt-Bankverein. UBS bearers were SFr4 higher at SFr1,209. Insurers and industrial shares mostly closed with marginal losses. Registered shares in Sandoz fell SFr5 to SFr670.

AMSTERDAM was broadly lower, although some gains were seen during the session, particularly from Heineken, up Fl 3.60 at Fl 248.10, following the strong performance on Friday.

The AEX index finished 1.38 down at 411.81.

MADRID, returning from a long holiday weekend, dipped 2.1 per cent as it caught up with Friday's losses in other European markets. The general index fell 6.46 to 298.72 in slim volume of below Pta20bn as the market awaited today's Spanish and US inflation data.

Among heavily hit banks, Santander and Argentaria each fell Pta100 to Pta5,120 and Pta5,210 respectively.

DUBLIN drifted lower in thin volume and the ISEQ overall index closed 10.76 easier at 1,909.34. One analyst commented that the Irish central bank had no need to follow the interest rate lead from London on economic grounds, and would, indeed, be anxious to demonstrate its autonomy.

STOCKHOLM advanced strongly, with heavy demand seen for Astra. The Affärsvärlden general index gained 9.4 at 1,450.3. Good demand for Swedish bonds and a firmer krona led to a decline in interest rates and provided support for the bourse.

Astra saw turnover of SKr800m, or some 28 per cent of the day's total of SKr2.9bn, and the "A" shares rose SKr3 to SKr186 while the "B" finished SKr4 up at SKr185.

Written and edited by John Pitt and Michael Morgan

FT-SE Actuaries Share Indices

THE EUROPEAN SERIES

Sep 12 Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1359.43	1358.63	1360.67	1362.68	1364.13	1364.04	1367.20	1368.09
FT-SE Eurotrack 200	1405.23	1408.96	1410.88	1412.25	1413.60	1411.97	1414.44	1416.17

	Sep 9	Sep 8	Sep 7	Sep 6	Sep 5
FT-SE Eurotrack 100	1370.03	1380.01	1371.13	1371.03	1380.11
FT-SE Eurotrack 200	1416.30	1431.14	1429.33	1427.57	1438.12

Base 1000 (26/10/90) High/day: 100 - 1368.09; 200 - 1416.68 Low/day: 100 - 1358.40 200 - 1404.52 † Partial

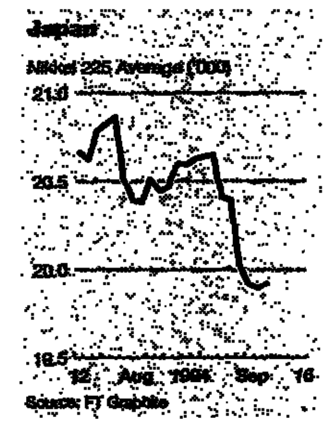
ASIA PACIFIC

Nikkei gains ground for the first time in six sessions

Tokyo

Equities rose for the first time in six trading days, but concern about oversupply weighed on activity, *writes Emiko Terazono in Tokyo.*

The Nikkei 225 average was up 19.40 at 19,917.28 after a day's high of 19,973.39 and low of 19,882.58. Institutional investors and public funds supported share prices, but the upside was limited by small-lot sales and arbitrage unwinding. Volume was only 194m shares, against Friday's 581m.



Investor confidence remained depressed as Japan Telecom, the long distance telecommunications operator listed on the second section last week, lost further ground. Friday's Wall Street decline also weighed on sentiment.

Traders said worries over the listing of Japan Tobacco next week prevailed. "The sentiment indicators like the ratio of put and call options show that people are more bearish than the same time last year," said Mr Alan Livsey at Kleinwort Benson.

Investors are also wary of Matsushita Electric Industrial's planned Y200bn convertible bonds issuance early next month.

The Topix index of all first section stocks eased 0.43 to 1,586.17 and the Nikkei 300 edged up 0.16 to 289.04. Falls led rises by 488 to 464, with 229 issues unchanged. In London the ISE/Nikkei 50 index firmed 0.89 to 1,291.39.

Japan Telecom posted a new low of Y4.27m, falling Y13,000. Other telecommunication stocks were also lower, with DDI down Y9,000 to Y898,000 and Nippon Telegraph and Telephone Y1,000 to Y884,000.

Steels were firm on selling and buying back activity by investors who wanted to realise profits ahead of the September book closing. Nippon Steel rose Y5 to Y375.

Some banks, which were down last week on profit-taking, rallied. Bank of Tokyo put on Y20 at Y1,510.

Matsushita Electric Industrial receded Y30 to Y1,620 on fears of oversupply caused by its expected convertible bond issue. Sumitomo Bakelite dropped Y26 to Y691 due to the weakness of its convertible bonds floated last week.

Daito Trust Construction fell by its daily limit of Y400 to Y1,620 following reports of sharply lower pre-tax profits projections for the current business year to next March.

In Osaka, the OSE average slipped 21.80 to 22,228.12 in volume of 42m shares. Rohm, a semiconductor device maker, rose Y80 to Y4,260 on a higher pre-tax profits forecast.

Roundup

The region's markets reflected the fall on Wall Street on Friday, and fears of an interest rate rise.

HONG KONG slid 2.5 per cent, with Chinese-incorporated issues the hardest hit after a recent rally, followed by the interest rate-sensitive property sector. The Hang Seng index shed 254.65 to 9,890.37, not far above the day's low of 9,856.11. Turnover was a provisional HK$5.09bn, down from Friday's HK$7.28bn.

The H share index of China incorporated companies fell 46.67, or 3.2 per cent, to 1,431.42. Among H shares, Shanghai Petrochemical declined 8 cents to HK$2.74, Maanshan Iron and Steel also 8 cents to HK$2.71 and Donfang Electric 42 cents to HK$4.10.

Property companies, highly sensitive to interest rate moves, were heavily sold: Sun Hung Kai Properties fell HK$1.75 to HK$58 and Cheung Kong HK$1.50 to HK$33.20.

Elsewhere, Guoco Group retreated HK$1.30 to HK$37.70, having made ground recently on speculation that it would be chosen to replace the Jardine companies in the Hang Seng index following the latter's delisting.

SYDNEY retreated further after Friday's decline. The All Ordinaries index lost 37.7, or 1.8 per cent, at 2,032.9, while the All Industrials index fell 61.1 to 2,881.9 and All Resources 19.7 to 1,403.4.

News Corp dropped 38 cents to A$8.32 and John Fairfax was down 13 cents at A$2.67.

KUALA LUMPUR fell back on selling of blue chips which knocked 1 per cent off the market's benchmark index. The composite index shed 12.61 to 1,169.05. Brokers said the index showed resilience at lower levels and they expected strong support at the 1,150 level. Volume was 343m shares and losers led gainers by 301 to 141.

Golden Plus gained 80 cents at M$14.90 on reports that the company would announce a major project this week.

MANILA was depressed by losses in the major stocks. The composite index fell 62.14 to 2,919.31, with PLDT sliding 1.3 per cent to 1,545 pesos and San Miguel "A" 1.5 per cent to 98 pesos.

TAIPEI slipped under the 7,000 mark in a volatile session. The weighted index dipped 32.34 to 6,987.48, after reaching an intraday high of 7,042.07. Turnover was thin at T$57bn.

Recently listed Taiwan Semiconductor climbed by the daily 7 per cent limit for the seventh straight session, adding T$9 at T$143.50 on volume of 3.8m shares.

Textiles made headway, Carnival Textile climbing T$1.60 to T$23.60 and Reward Wool 90 cents to T$48.70.

SEOUL extended early gains in spite of selling intervention by the stock market stabilisation fund. The composite stock index rose 9.18 to 995.70. Advances exceeded declines by 483 to 325, with 175 going limit up. Samsung Electronics staged a rebound, rising the day's limit of Won3,000 to Won133,700.

SINGAPORE was broadly lower in thin trade. The Straits Times Industrial index slipped 19.57 to 2,280.39, with an estimated 170m shares traded.

BOMBAY climbed to a record high on continued speculative buying. The BSE index closed at a provisional 4,643.31, up 92.36 or 2 per cent. Brokers said better half-year results helped the rally.

The BSE index has shown a steady upward movement throughout the year and is now 34 per cent higher than its year's opening of 3,465.86.

Brokers attributed the speculative interest to strong hopes that the Securities and Exchange Board of India would approve a recent BSE proposal for the introduction of a 90-day futures contract.

BANGKOK declined on fears of a possible interest rate rise. The SET index closed 18.44, or 1.2 per cent, lower at 1,490.41. Turnover was Bt7.4bn. Stocks fell across the board, led by banks which lost 2.2 per cent.

WELLINGTON followed the region's trend, losing 2.2 per cent. The NZSE-40 capital index fell 47.63 to 2,111.09 in light NZ$40.4m turnover.

S Africa ends broadly lower

Johannesburg ended broadly lower as initial losses in golds and other mining shares spread to the broader market amid a lack of fresh direction and limited buying support.

The overall index, after edging higher at the start, finished 63 down at 5,892, while golds lost 45 at 2,419 and industrials dipped 22 to 6,595.

Traders said short term equity index futures, which close out on Thursday, were calling golds slightly better but were discounting a fall in the industrial and overall indices.

The newly listed Nasionale Pers added R2 at R21 – sharply above expectations which were as low as R17 – in heavy volume of R115m.

Iscor lost 12 cents at R4.58 as profits continued to be taken after recent gains.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Ltd., Goldman, Sachs & Co. and NatWest Securities Ltd. in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY SEPTEMBER 9 1994 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	THURSDAY SEPTEMBER 8 1994 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (68)	175.11	-0.9	167.40	109.88	140.38	158.36	-0.9	3.51	176.67	169.47	111.01	142.94	157.86	189.16	139.24	142.82
Austria (17)	198.89	1.5	190.14	124.80	159.44	169.39	0.8	1.00	195.93	187.95	123.11	158.52	159.47	198.99	164.64	175.12
Belgium (37)	175.50	0.7	167.77	110.12	140.69	137.46	-0.2	4.02	174.26	167.15	109.49	140.98	137.78	177.04	143.62	150.57
Canada (104)	135.06	-0.7	129.11	84.74	108.26	133.91	-0.6	2.51	135.95	130.41	85.42	109.99	134.76	145.31	120.54	124.31
Denmark (33)	255.53	0.4	244.28	160.33	204.83	211.92	-0.6	1.40	254.50	244.12	159.91	205.90	213.13	276.79	223.94	232.36
Finland (24)	181.70	2.3	173.70	114.01	145.65	190.73	1.3	0.73	177.62	170.37	111.60	143.70	188.28	181.70	104.28	111.55
France (97)	172.43	-0.5	164.83	108.19	138.22	142.90	-1.4	3.08	173.31	166.24	108.89	140.22	144.99	186.37	159.34	168.59
Germany (58)	150.40	1.7	143.78	94.37	120.57	120.57	0.7	1.71	147.92	141.89	92.94	119.68	119.68	150.40	124.39	128.01
Hong Kong (56)	416.42	0.1	398.08	261.29	333.81	413.12	0.1	2.97	415.99	399.04	261.36	336.57	412.89	506.58	292.08	301.45
Ireland (14)	212.82	-0.4	203.45	133.54	170.60	195.61	-0.9	3.25	213.73	205.02	134.29	172.92	197.59	218.60	161.54	169.82
Italy (59)	79.36	-1.6	75.87	49.80	63.62	93.17	-2.2	1.67	80.68	77.39	50.69	65.27	95.29	97.76	57.88	75.58
Japan (469)	159.51	0.5	152.49	100.09	127.87	100.09	0.3	0.77	158.79	152.32	99.77	128.47	99.77	170.10	124.54	158.95
Malaysia (97)	582.14	0.8	556.51	365.28	466.66	573.17	0.8	1.45	577.58	554.04	362.91	467.30	568.90	621.83	392.03	403.60
Mexico (18)	2298.02	0.8	2196.84	1441.93	1842.12	8551.43	0.9	1.20	2279.69	2186.74	1432.37	1844.37	8470.72	2847.08	1615.11	1765.74
Netherland (27)	217.03	0.1	207.48	136.18	173.98	171.27	-0.8	3.34	216.74	207.91	136.19	175.36	172.65	218.19	180.25	185.77
New Zealand (14)	75.35	0.1	72.03	47.28	60.40	68.21	0.2	3.61	75.28	72.21	47.30	60.91	68.07	77.59	59.22	61.40
Norway (23)	204.87	-0.4	195.85	128.55	164.23	189.62	-1.3	1.75	205.76	197.37	129.28	166.47	191.11	211.74	165.52	168.68
Singapore (44)	362.40	-0.4	346.45	227.40	290.51	250.05	-0.5	1.69	363.80	348.97	228.59	294.34	251.39	378.92	265.31	288.27
South Africa (59)	310.15	-0.5	296.49	194.61	248.62	305.73	-0.7	2.09	311.73	299.02	195.87	252.20	307.76	314.24	176.89	180.73
Spain (42)	141.39	-0.1	135.17	88.72	113.34	137.48	-0.9	4.19	141.50	135.73	88.91	114.48	138.76	165.79	129.88	140.87
Sweden (36)	224.70	0.7	214.81	140.99	180.12	251.45	-0.4	1.59	223.23	214.13	140.26	180.61	252.43	231.35	175.83	190.53
Switzerland (47)	167.60	0.4	160.22	105.16	134.35	133.64	-0.9	1.82	166.99	160.18	104.92	135.10	134.89	178.56	135.70	137.58
United Kingdom (204)	198.99	-0.8	190.23	124.86	159.52	190.23	-1.2	3.97	200.66	192.48	126.08	162.35	192.48	214.96	181.11	191.65
USA (517)	190.98	-1.0	182.57	119.83	153.09	190.98	-1.0	2.64	192.98	185.11	121.25	156.13	192.98	196.04	178.95	188.94
EUROPE (718)	173.93	-0.1	166.27	109.13	139.42	164.71	-0.8	3.00	174.13	167.03	109.41	140.88	166.03	178.58	153.98	159.13
Nordic (116)	220.34	0.8	210.64	138.25	176.63	210.67	-0.2	1.41	218.56	209.65	137.33	176.83	211.09	222.08	173.19	180.48
Pacific Basin (748)	170.22	0.4	162.73	106.81	136.45	111.63	0.2	1.08	169.60	162.68	106.56	137.21	111.35	178.86	134.79	168.11
Euro-Pacific (1466)	171.66	0.2	164.10	107.71	137.60	128.74	-0.2	1.90	171.38	164.40	107.68	138.66	129.02	175.14	143.88	161.36
North America (621)	187.51	-1.0	179.25	117.65	150.31	187.04	-1.0	2.82	189.44	181.71	119.03	153.26	188.96	192.73	175.67	183.07
Europe Ex. UK (514)	156.54	0.3	149.65	98.22	125.48	133.73	-0.7	2.42	156.06	149.70	98.06	126.26	134.61	168.12	134.97	138.70
Pacific Ex. Japan (279)	272.84	-0.1	260.83	171.20	218.72	242.47	-0.1	2.67	273.01	261.88	171.54	220.88	242.71	298.21	200.13	204.22
World Ex. US (1647)	173.42	0.1	165.78	108.82	139.02	132.64	-0.2	1.91	173.19	166.13	108.82	140.12	132.94	176.66	145.59	161.30
World Ex. UK (1960)	176.19	-0.2	168.43	110.55	141.24	146.77	-0.4	2.05	176.58	169.39	110.95	142.86	147.42	178.59	156.98	166.63
World Ex. So. Af. (2105)	177.37	-0.3	169.56	111.29	142.18	149.55	-0.5	2.24	177.86	170.61	111.75	143.90	150.32	180.09	158.54	168.69
World Ex. Japan (1695)	190.12	-0.6	181.75	119.29	152.40	180.63	-0.8	2.84	191.22	183.43	120.15	154.71	182.17	195.20	174.04	176.13
The World Index (2164)	178.21	-0.3	170.36	111.82	142.85	150.69	-0.5	2.23	178.71	171.42	112.28	144.58	151.46	180.80	158.85	168.83

Latest prices were unavailable for this edition. Please note: Barcelona market open 9/9/94. Madrid market closed 9/9/94.